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regulations in order to address quality of service issues; (iii) ordered interested parties to identify modifications to regulations governing access on non-service-related grounds; (iv) began a proceeding to consider eliminating product and geographic competition as factors to be considered in deciding whether a railroad has market dominance over rail traffic; (v) ordered large and small railroads to negotiate arrangements that would increase the role of short-line rail carriers; and (vi) directed the railroads to establish "formalized dialogue" immediately with large and

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small shippers and rail labor. Should the STB or Congress take aggressive action, (e.g., by making purportedly competition-enhancing changes in rate and route regulation and "access" provisions), the adverse effect on the Railroad and other railroads could be material.

ENVIRONMENTAL MATTERS: The Railroad has been named as a defendant in a civil action brought by the California Department of Fish and Game, Office of Spill Prevention and Response on April 10, 1998. The complaint alleges violations of California Fish and Game Code Section 5650, California Business and Professions Code Section 17200, Civil Code Sections 3479 and 3480, and damage to the waters of California for which the Department of Fish and Game allege trusteeship. The complaint results from derailments and alleged releases of diesel fuel oil during 1995 in the Feather River Canyon in Butte County, California. The Complaint seeks penalties, exemplary damages, natural resource damages and unspecified injunctive relief.

The Railroad has been named as a defendant in a criminal misdemeanor action brought by the State of California in the Municipal Court of Placer County, California on February 24, 1998. The complaint alleges a violation of California Fish and Game Code Section 5650 as a result of a diesel fuel spill in Norden, California in February 1997. In addition, the California Department of Fish and Game is seeking penalties, monitoring costs and natural resource damages under state water statutes, and the U.S. Environmental Protection Agency (EPA) is seeking penalties for violation of the Clean Water Act in connection with the same incident.

The Railroad and Clean Harbors, a waste disposal firm, are the subject of a criminal investigation by the EPA and the Federal Bureau of Investigation (FBI). Tank cars containing hazardous waste billed to Clean Harbors' transload facility in Sterling, Colorado were held in the Railroad's Sterling, Colorado rail yard for periods longer than ten days prior to placement in Clean Harbor's facility, allegedly in violation of hazardous waste regulations. A finding of violation could result in significant criminal or civil penalties.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

- 3 - By-Laws of Union Pacific Railroad Company, as amended effective as of April 30, 1998.
- 12 - Ratio of Earnings to Fixed Charges
- 27 - Financial Data Schedule.

(b) Reports on Form 8-K

On January 23, 1998, the Company filed a Current Report on

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Form 8-K discussing fourth quarter and full year 1997 earnings of the Corporation.

On February 26, 1998, the Company filed a Current Report on Form 8-K describing first quarter 1998 results and current actions taken by UPC's Board of Directors.

On March 25, 1998, the Company filed a Current Report on Form 8-K announcing that the Company will embargo most southbound traffic destined for the Laredo, Texas gateway.

<SIGNITURES>

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, on this 14th day of May, 1998.

UNION PACIFIC RAILROAD COMPANY

By /s/John J. Koraleski

John J. Koraleski
Executive Vice President-Finance

By /s/ Joseph E. O'Connor, Jr.

Joseph E. O'Connor, Jr.
Chief Accounting Officer

<EXHIBIT INDEX> INDEX

UNION PACIFIC RAILROAD COMPANY AND CONSOLIDATED SUBSIDIARY COMPANIES

EXHIBIT INDEX

Exhibit No.	Description
3	By-Laws of Union Pacific Railroad Company, as amended effective April 30, 1998
12	Computation of Ratio of Earnings to Fixed Charges
27	Financial Data Schedule

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BY-LAWS

OF

UNION PACIFIC RAILROAD COMPANY

As Amended Effective as of April 30, 1998

BY-LAWS

OF

UNION PACIFIC RAILROAD COMPANY

(As Amended Effective as of April 30, 1998)

ARTICLE I

STOCKHOLDERS MEETINGS

SECTION 1. Meetings, annual or special, of the stockholders of this Company may be held at such place or places as shall be ordered by the Board of Directors or the Executive Committee.

SECTION 2. Annual meetings of the stockholders, for the purpose of electing directors and transacting any other business, shall be held at such time as shall be ordered by the Board of Directors or the Executive Committee, but, unless otherwise ordered, shall be held at 11:00 a.m. on the third Friday of April in each year.

SECTION 3. A special meeting of the stockholders may be called by the Board of Directors, the Executive Committee or by any other person who, at such time, is authorized by the General Corporation Law of the State of Delaware (the "GCL") to call a special meeting of stockholders. The objects of a special meeting shall be stated in the order therefor, and the business transacted shall be confined to such objects.

SECTION 4. Notice of all meetings of the stockholders shall be given, either personally or by mail, not less than ten nor more than sixty days prior thereto. If given by mail, the notice shall be sent by United States mail, postage prepaid, directed to each stockholder at his address

as it appears on the records of the Company. The notice of all special meetings shall state the objects thereof. The failure to give notice of an annual meeting, or any irregularity in the notice, shall not affect the validity of such annual meeting or of any proceedings thereat. Any stockholder may consent in writing to the holding of a special meeting without notice.

SECTION 5. The Board of Directors or the Executive Committee may fix in advance a day and hour, which shall not precede the date upon which the resolution fixing such day and hour is adopted by the Board of Directors or the Executive Committee and which shall be not more than sixty nor less than ten days preceding any annual or special meeting of stockholders or, in the case of action of stockholders without a meeting, more than ten days after the date upon which the resolution fixing such day and hour is adopted by the Board of Directors or the Executive Committee, as the time for the determination of stockholders entitled to vote at such meeting or to take such action. Stockholders of record at the time so fixed by the Board of Directors or the Executive Committee and only such stockholders shall be entitled to vote at such meeting. Each share of stock shall entitle such record holder thereof to one vote, in person or by proxy in writing.

SECTION 6. The Chairman of the Board, and in his absence the Chairman of the Executive Committee, and in their absence the President or one of the Vice Presidents, shall call meetings of the stockholders to order and act as chairman of such meetings. In the absence of all of these officers, the Board of Directors may appoint a chairman of the meeting to act in such event; but if the Board shall not make such appointment, then, in the absence of all of these officers, any stockholder or proxy of any stockholder may call the meeting to order, and a chairman shall be elected.

SECTION 7. The Secretary of the Company shall act as secretary at all meetings of the stockholders; but the Board of Directors or the Executive Committee may designate an Assistant Secretary for that purpose before the meeting, and if no such designation shall have been made, then the presiding officer at the meeting may appoint any person to act as secretary of the meeting.

SECTION 8. Stockholders may take action on a matter at a meeting only if a quorum exists with respect to that matter. Unless the certificate of incorporation or the GCL provide otherwise, a majority of the shares entitled to vote on the matter, represented in person or by proxy, constitutes a quorum for action on that matter. If a quorum exists, action on a matter, other than the election of directors, by stockholders is approved if the votes cast favoring the action exceed the votes cast opposing the action, unless the certificate of incorporation or the GCL require a greater number of affirmative votes. Directors are elected by a plurality of the votes cast by the shares entitled to vote in the election, represented in person or by proxy, at a meeting at which a quorum is present.

ARTICLE II

BOARD OF DIRECTORS

SECTION 1. All corporate powers shall be exercised by or under the authority of, and the business and affairs of the Company shall be managed under the direction of, the Board of Directors, which shall consist of fourteen members. Vacancies and newly created directorships resulting from any increase in the authorized number of directors may be filled by a vote of the Board and, if the directors remaining in office consist of fewer than a quorum of the Board, a majority of directors then in office, though less than a quorum, may fill the vacancy. A director elected to fill a vacancy shall be elected for the unexpired term of his predecessor in office. Any director appointed by the Board of Directors to fill a directorship caused by an increase in the number of directors shall serve until the next annual meeting or a special meeting of the stockholders

called for the purpose of electing directors.

SECTION 2. Regular meetings of the Board of Directors shall be held at such times as the Board shall from time to time designate, and no further notice of such regular meetings shall be required. Special meetings shall be held whenever called by order of the Chairman of the Board, the Chairman of the Executive Committee, or the Executive Committee or any five members of the Board. Notice of special meetings shall be given, at least one day prior thereto, by personal service of written notice upon the directors or by delivering the same at, or transmitting the same by first class mail, facsimile transmission, telephone or other electronic means to, their respective residences or offices. Any director may consent in writing to the holding of a special meeting without notice, and the attendance or participation of any director at a special meeting shall constitute a waiver by him of call and notice thereof and a consent to the holding of said meeting and the transaction of any corporate business thereat, unless the director at the beginning of the meeting, or promptly upon the director's arrival, objects to holding the meeting or transacting business thereat because of lack of notice or defective notice, and does not thereafter vote for or assent to the action taken at the meeting. Meetings of the Board of Directors may be held at such place or places as shall be ordered by the Executive Committee or by a majority of the directors in office, but, unless otherwise ordered, all meetings of the Board of Directors shall be held at the principal executive offices of the Company in Dallas, Texas.

SECTION 3. A majority of the number of directors prescribed by Article II, Section 1 shall constitute a quorum at all meetings of the Board. If a quorum be not present at any meeting, a majority of the directors present may adjourn the meeting until a later day or hour.

ARTICLE III

EXECUTIVE COMMITTEE

SECTION 1. There shall be an Executive Committee consisting of such number of directors as shall be elected thereto by the vote of the majority of the directors then in office, whose terms of office shall continue during the pleasure of the Board. Except to the extent otherwise provided in the GCL, the Executive Committee shall, when the Board of Directors is not in session, have all the powers of the Board of Directors to manage and direct all the business and affairs of the Company in all cases in which specific directions shall not have been given by the Board of Directors.

SECTION 2. Meetings of the Executive Committee may be called at any time by the Chairman of the Board, the Chairman of the Executive Committee, or a majority of the members of the Executive Committee, to convene at such time and place as may be designated. The rules regarding notice of meetings of the Board set forth in Section 2 of Article II of these By-Laws shall apply to meetings of the Executive Committee.

SECTION 3. A majority of the members of the Executive Committee shall constitute a quorum. If a quorum be not present at any meeting, the member or members of the Committee present may adjourn the meeting until a later day or hour.

ARTICLE IV

OFFICERS AND AGENTS

SECTION 1. The Board of Directors may elect such of the following officers as it deems necessary or desirable: a Chairman of the Board, a Chairman of the Executive Committee, a Chief Executive Officer, a President, a Chief Operating Officer, a Chief Financial Officer, a Chief Accounting Officer, an Executive Vice President-Finance and Administration, an Executive Vice President-Marketing and Sales, an Executive Vice President-Operation, a Vice President and General Counsel, a Vice President-Taxes, a Controller, a Secretary, a Treasurer and such other Executive Vice Presidents, Senior Vice Presidents and Vice

Presidents as the Board shall determine, and there may also be appointed by the Board of Directors or Executive Committee such Assistant Secretaries, Assistant Treasurers, General Tax Counsels and other officers and agents as the Board of Directors or Executive Committee shall from time to time determine.

SECTION 2. The Chairman of the Board shall perform such duties and possess such powers as may be prescribed or conferred by the Board of Directors or the Chairman of the Executive Committee.

SECTION 3. The Chairman of the Executive Committee shall preside at meetings of the Executive Committee and Board of Directors, and shall have general supervision of all business of the Company and of the interest of the Company in all companies controlled by it and shall perform such other duties and possess such powers as may be prescribed or conferred by the Board of Directors.

SECTION 4. The Chief Executive Officer shall have charge of all departments and offices of the Company and of the interest of the Company in all companies controlled by it and shall perform such other duties and possess such powers as may be prescribed or conferred by the Board of Directors or the Chairman of the Executive Committee.

SECTION 5. The President shall perform such duties and possess such powers as may be prescribed or conferred by the Board of Directors or the Chief Executive Officer.

SECTION 6. The Chief Operating Officer shall have day to day operating responsibilities for the affairs of the Company, reporting to the Chief Executive Officer, and shall perform such other duties as may be prescribed or conferred by the Chief Executive Officer.

SECTION 7. The Chief Financial Officer shall have general supervision of the financial affairs and investments of the Company and shall perform such other duties as may be prescribed or conferred by the Chairman of the Executive Committee.

SECTION 8. The Executive Vice President-Finance and Administration shall have immediate charge of the financial affairs and investments of the Company and shall have general supervision of the information technologies systems of the Company and shall perform such other duties as may be prescribed or conferred by the President.

SECTION 9. The Executive Vice President-Marketing and Sales shall have charge of all marketing and sales activities of the Company and shall perform such other duties as may be prescribed or conferred by the President.

SECTION 10. The Executive Vice President-Operation shall have charge of the maintenance and operation of the railroads of the Company and shall perform such other duties as may be prescribed or conferred by the Chief Operating Officer.

SECTION 11. The other Executive Vice Presidents and Senior Vice Presidents elected from time to time shall perform such duties and possess such powers as may be prescribed or conferred by the Board of Directors or the President.

SECTION 12. The Vice President and General Counsel shall have general supervision of all legal business of the Company except as otherwise provided in Section 13 of this ARTICLE IV, and shall perform such other duties as may be prescribed or conferred by the Chairman of the Executive Committee.

SECTION 13. The Vice President-Taxes shall, under the control of the Chief Financial Officer, have charge of all aspects of federal, foreign, state and local taxes and shall perform such other duties as may be prescribed or conferred by the Chief Financial Officer.

SECTION 14. The other Vice Presidents elected from time to time

shall perform such duties and possess such powers as may be prescribed or conferred by the Board of Directors or the President.

SECTION 15. Except as otherwise provided herein or directed by the Board of Directors, the Chief Accounting Officer shall have immediate charge of the general books, accounts and statistics of the Company and shall be the custodian of all vouchers, drafts, invoices and other evidences of payment and all bonds, interest coupons and other evidences of indebtedness which shall have been canceled. He is authorized to approve for payment by the Treasurer vouchers, payrolls, drafts or other accounts. He shall have prepared periodically or specially as requested by him with the approval of and in forms prescribed by the Chief Financial Officer, statements of operating revenues and expenses and estimates thereof and of expenditures and estimates on all other accounts; and copies of all statistical data that may be compiled in regular course and also other information in reference to the financial affairs and operations of the Company and of any subsidiary company that may be required by the Chief Financial Officer or the Board of Directors. He shall submit for each regular meeting of the Board of Directors, and, at such other times as may be required by said Board or the Chief Financial Officer, statements of operating results, of cash resources and requirements and of appropriations for Capital Expenditures, and shall perform such other duties as the Chief Financial Officer may from time to time direct.

SECTION 16. The Secretary shall attend all meetings of the stockholders, the Board of Directors and the Executive Committee, and keep a record of all their proceedings. He shall procure and keep in his files copies of the minutes of all meetings of the stockholders, boards of directors and executive committees of all companies a majority of whose capital stock is owned by this Company. He shall be the custodian of the seal of the Company. He shall have the power to affix the seal of the Company to instruments, the execution of which is authorized by these By-Laws or by action of the Board of Directors or Executive Committee, and to attest the same. He shall have supervision of the issuance, transfer and registration of the capital stock and debt securities of the Company. He shall perform such other duties as may be assigned to him by the Board of Directors, the Chairman of the Board or the Chairman of the Executive Committee.

The Assistant Secretaries shall have power to affix the seal of the Company to instruments, the execution of which is authorized by these By-laws or by action of the Board of Directors or Executive Committee, and to attest the same, and shall exercise such of the other powers and perform such of the other duties of the Secretary as shall be assigned to them by the Secretary.

SECTION 17. Except as otherwise provided herein or directed by the Board of Directors, the Treasurer shall be the custodian of all moneys, stocks, bonds, notes and other securities of the Company. He is authorized to receive and receipt for stocks, bonds, notes and other securities belonging to the Company or which are received for its account. All stocks, bonds, notes and other securities in the custody of the Treasurer shall be held in the safe deposit vaults of the Company or in one or more depositories selected by the Treasurer or other officer authorized by the Board of Directors, in each case subject to access thereto as shall from time to time be authorized or required by the Board of Directors, the Chief Financial Officer or the Treasurer. Stocks, bonds, notes and other securities shall be deposited in the safe deposit vaults or depositories, or withdrawn from them, only by persons and pursuant to procedures as shall be determined by the Board of Directors, the Chief Financial Officer or the Treasurer. The Treasurer is authorized and empowered to receive and collect all moneys due to the Company and to receipt therefor. All moneys received by the Treasurer shall be deposited to the credit of the Company in such depositories as shall be designated by the Board of Directors, the Chief Financial Officer, the Treasurer or such other officers as may be authorized by the Board of Directors; and the Treasurer or other officer designated by the Treasurer may endorse for deposit therein all checks, drafts, or vouchers drawn to the order of the Company or payable to it. He is also authorized to draw checks against any funds to the credit of the Company in any of its depositories. All

such checks shall be signed by such persons, either by manual or facsimile signature, as shall be authorized by the Board of Directors and countersigned if required by the Board of Directors. The Treasurer is authorized to make disbursements in settlement of vouchers, payrolls, drafts or other accounts, when approved for payment by the Chief Accounting Officer; or such other person as shall be authorized by the Board of Directors, the Chief Financial Officer or these By-Laws; for payments which have been otherwise ordered or provided for by the Board of Directors or the Chief Financial Officer; for interest on bonds and dividends on stock when due and payable; for vouchers, pay checks, drafts and other accounts properly certified to by the duly authorized officers of the Company and approved for payment by or on behalf of the Chief Accounting Officer; and for vouchers, pay checks, drafts and other accounts approved by the officers duly authorized to approve for payment of any company which this Company controls through ownership of stock or otherwise, as may be designated in writing from time to time by the Chief Financial Officer to the Treasurer. He shall cause to be kept in his office true and full accounts of all receipts and disbursements of his office. He shall also perform such other duties as shall be assigned to him by the Chief Financial Officer.

The Assistant Treasurers may exercise all the powers of the Treasurer herein conferred in respect of the receipt of moneys and securities, endorsement for deposit and signature of checks.

ARTICLE V

SUPERVISION, REMOVAL AND SALARIES OF OFFICERS AND EMPLOYEES

SECTION 1. Any officer or employee elected or appointed by the Board of Directors may be removed as such at any time by the affirmative vote of a majority of the directors then in office, with or without cause. Any other officer or employee of the Company may be removed at any time by vote of the Board of Directors or of the Executive Committee or by the officer supervising such officer or employee, with or without cause.

SECTION 2. All officers, agents and employees of the Company, in the exercise of the powers conferred and the performance of the duties imposed upon them, by these By-Laws or otherwise, shall at all times be subject to the direction, supervision and control of the Board of Directors or the Executive Committee.

SECTION 3. No office or position shall be created and no person shall be employed at a salary of more than \$300,000 per annum, and no salary shall be increased to an amount in excess of \$300,000 per annum, without the approval of the Board of Directors or Executive Committee.

SECTION 4. Except to the extent otherwise provided in the GCL, the Board of Directors may from time to time vest general authority in the Chairman of the Board, the Chairman of the Executive Committee, the Chief Executive Officer, the President, the Chief Operating Officer, the Head of any department or office of the Company, or any such other officer of the Company as any of the foregoing shall designate, for the sole determination of disposition of any matter which otherwise would be required to be considered by the Board of Directors or the Executive Committee under the provisions of this Article.

ARTICLE VI

CONTRACTS AND EXPENDITURES

SECTION 1. All capital expenditures, leases and property dispositions must be authorized by the Board of Directors or Executive Committee, except that general or specific authority with regard to such matters may be delegated to such officers of the Company as the Board of Directors may from time to time direct to the extent not inconsistent with the provisions of the GCL.

SECTION 2. Expenditures chargeable to operating expenses may be made by or under the direction of the Head of the department in which they are required, without explicit or further authority from the Board of Directors or Executive Committee, subject to direction, restriction or prohibition by the Chairman of the Board, the Chairman of the Executive Committee, the Chief Executive Officer, the President or the Chief Operating Officer.

SECTION 3. No contract shall be made without the approval of the Board of Directors or Executive Committee, except as authorized by the Board of Directors or these By-Laws.

SECTION 4. Contracts for work, labor and services and materials and supplies, the expenditures for which will be chargeable to operating expenses, may be made in the name and on behalf of the Company by the Chairman of the Board, the Chairman of the Executive Committee, the Chief Executive Officer, the President or the Chief Operating Officer, or by such officer as he shall designate, without further authority.

SECTION 5. All written contracts and agreements to which the Company may become a party shall be approved as to form by or under the direction of counsel for the Company.

SECTION 6. The Chairman of the Board, the Chairman of the Executive Committee, the Chief Executive Officer, the President, the Chief Operating Officer and the Executive Vice Presidents, Senior Vice Presidents and Vice Presidents shall severally have the power to execute on behalf of the Company any deed, bond, indenture, certificate, note, contract or other instrument authorized or approved by, or pursuant to authority granted by, the Board of Directors or the Executive Committee, and to cause the corporate seal to be thereto affixed and attested by the Secretary or an Assistant Secretary.

SECTION 7. Except to the extent otherwise provided in the GCL, the Board of Directors may from time to time vest general or specific authority in such officers of the Company as the Board of Directors shall designate for the sole determination of disposition of any matter which otherwise would be required to be considered by the Board of Directors or the Executive Committee under the provisions of this Article.

ARTICLE VII INDEMNIFICATION

SECTION 1. The Company shall indemnify to the full extent permitted by law any person who was or is a party or is threatened to be made a party to any threatened, pending, or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that (i) such person is or was a director or officer of the Company or (ii) while a director or officer of the Company, such person is or was serving at the request of the Company as a director or officer of another corporation, partnership, joint venture, trust or other enterprise. The indemnification provided in this Section 1 of this Article VII shall include the right to receive payment in advance of the final disposition of any such action, suit or proceeding of any expenses (including attorneys' fees) incurred by any such person in defending such action, suit or proceeding, consistent with the provisions of then applicable law. For purposes of this Article VII, the term "other enterprise" shall include any employee benefit plan; and "serving at the request of the Company" shall include any service as a director or officer of the Company which imposes duties on, or involves services by, such director or officer with respect to an employee benefit plan, its participants or beneficiaries; and any action by a person with respect to an employee benefit plan taken in good faith and in a manner such person reasonably believed to be in the interest of the participants and beneficiaries of such plan shall be deemed to be action not opposed to the best interests of the Company. This Section 1 of this Article VII shall not apply to any action, suit or proceeding pending or threatened on the date of adoption hereof provided that the right of the Company to indemnify any person with respect thereto shall not be limited hereby.

SECTION 2. Any indemnification under Section 1 of this Article VII (unless ordered by a court) shall be made by the Company only as authorized in the specific case upon a determination that indemnification of the present or former director or officer is proper in the circumstances because such person has met the applicable standard of conduct required by law. Such determination shall be made by the persons authorized by the GCL.

SECTION 3. Notwithstanding Sections 1 and 2 of this Article VII, except for proceedings to enforce rights to indemnification, the Company shall not be obligated to indemnify any director or officer in connection with a proceeding (or part thereof) initiated by such person unless such proceeding (or part thereof) was authorized or consented to by the Board of Directors. The indemnification and advancement of expenses provided by Section 1 of this Article VII shall not be deemed exclusive of any other rights to which any person seeking indemnification may be entitled under any law, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in such person's official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director or officer and shall inure to the benefit of the heirs, executors and administrators of such a person. Any amendment or repeal of Section 1 or Section 2 of this Article VII or this Section 3 shall not limit the right of any person to indemnity with respect to actions taken or omitted to be taken by such person prior to such amendment or repeal.

ARTICLE VIII

FINAL

SECTION 1. The common corporate seal is, and, until otherwise ordered by the Board of Directors, shall be, an impression upon paper or wax, circular in form, with the words "Union Pacific Railroad Company" and "Delaware" on the outer edge thereof.

SECTION 2. Except as otherwise proved by the GCL, these By-Laws may be altered, amended or repealed at a meeting of the stockholders by a majority vote of those present in person or by proxy or at any meeting of the Board of Directors by a majority vote of the directors then in office.

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UNION PACIFIC RAILROAD COMPANY AND CONSOLIDATED SUBSIDIARY COMPANIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(In Millions of Dollars, Except Ratios)
(Unaudited)

	Three Months Ended March 31,	
	1998	1997
Earnings:		
Income from continuing operations.	\$(32)	\$170
Undistributed equity earnings.	(10)	(8)
Total.	(42)	162

Income Taxes	(31)	98
Fixed Charges:		
Interest expense including amortization of debt discount.	135	122
Portion of rentals representing an interest factor.	43	47
Total	178	169
Earnings available for fixed charges	105	429
Fixed Charges -- as above.	\$178	\$169
Interest capitalized	-	-
Total fixed charges	\$178	\$169
Ratio of earnings to fixed charges (Note 4).6	2.5

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UNION PACIFIC RAILROAD COMPANY AND CONSOLIDATED SUBSIDIARY COMPANIES

FINANCIAL DATA SCHLDULE

FOR THE THREE MONTHS ENDED MARCH 31, 1998

(IN MILLIONS, EXCEPT FOR PER SHARE AMOUNTS)

(UNAUDITED)

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-----END PRIVACY-ENHANCED MESSAGE-----

BEFORE THE
SURFACE TRANSPORTATION BOARD

Finance Docket No. 32760 (Sub-No. 21)

UNION PACIFIC CORPORATION, UNION PACIFIC RAILROAD COMPANY
AND MISSOURI PACIFIC RAILROAD COMPANY
-- CONTROL AND MERGER --
SOUTHERN PACIFIC RAIL CORPORATION, SOUTHERN PACIFIC
TRANSPORTATION COMPANY, ST. LOUIS SOUTHWESTERN RAILWAY
COMPANY, SPCSL CORP. AND THE DENVER
AND RIO GRANDE WESTERN RAILROAD COMPANY -- OVERSIGHT

UNION PACIFIC'S RESPONSES AND OBJECTIONS
TO KCS/TEX MEX'S SECOND SET OF DISCOVERY

Union Pacific Railroad Company ("UP") hereby responds to the
"Second Set of Discovery Directed to Union Pacific Railroad Company" served by
Kansas City Southern Railway Company ("KCS") and Texas Mexican Railway
Company ("Tex Mex") (collectively, "KCS/Tex Mex") on April 29, 1998
(TM-11/KCS-12).

These responses are being provided voluntarily. UP does not agree that
parties are entitled to any discovery at this time, or to general discovery at any time
in this and future merger oversight proceedings, which are not intended as a forum to
relitigate the UP/SP merger.

KCS/Tex Mex should seek information about the Wharton Branch through the negotiating process, not through formal Board discovery. Subject to and without waiver of the foregoing objections, UP states that it has not abandoned the former SP Wharton Branch between SP milepost 2.5, near Rosenberg and McHattie, Texas, and SP milepost 25.8, near Wharton, Texas.

Interrogatory No. 2

"Has the abandonment that has been authorized for the Wharton Branch line between SP milepost 25.8, near Wharton, Texas and SP milepost 87.8 near Victoria, Texas been consummated for any portion of or all of that line? If the answer to this interrogatory is in the affirmative, for each portion for which abandonment was consummated, please describe the portion of the line by listing relevant mileposts, state the date on which the abandonment was consummated, and identify documents sufficient to demonstrate the fact that the abandonment has been consummated."

Response:

See objections stated in Response to Interrogatory No. 1. Subject to and without waiver of the foregoing objections, UP states that it has not abandoned the portion of the former SP Wharton Branch between SP milepost 25.8, near Wharton, Texas and SP milepost 87.8, near Victoria, Texas.

Interrogatory No. 3

"Describe in detail, and identify all documents sufficient to evidence, UP ownership and/or property interests, including, but not limited to easements and covenants, for the land underlying the former SP line called the Wharton Branch between Rosenberg, Texas and Wharton, Texas."

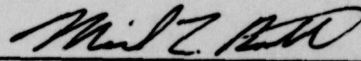
CERTIFICATE OF SERVICE

I, Michael L. Rosenthal hereby certify that on this 14th day of May, 1998, I served a copy of Union Pacific's Responses and Objections to KCS/Tex Mex's Second Set of Discovery by hand on:

Richard A. Allen
John V. Edwards
Zuckert, Scoutt & Rasenberger, LLP
888 17th Street, N.W.
Suite 600
Washington, D.C. 20006-3939

William A. Mullins
Sandra L. Brown
David C. Reeves
Troutman Sanders LLP
1300 I Street, N.W.
Suite 500 East
Washington, D.C. 20005-3314

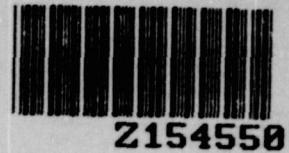
and by first-class mail, postage prepaid, on all other parties of record.



Michael L. Rosenthal



Surface Transportation Board
Washington, D.C. 20423-0001



MAY 21 1998

(202) 565-1710

May 20, 1998

FOI Services Inc.
11 Firstfield Roads
Gaithersburg, MD 20878

ATTN: Patrick L. Small

RE: FOIA REQUEST No. 98-018
Your CONTROL NUMBER 154550

Dear Mr. Small:

With reference to your Freedom of Information Act request, please be advised that after searching our records, we are unable to locate any material on the subject matter in question.

Please advise if we may assist you further.

Sincerely,

JOHN M. ATKISSON
Freedom of Information/Privacy Officer



FOI Services, Inc.
11 Firstfield Road
Gaithersburg MD 20878-1703 USA
Phone: 301-975-9400
Fax: 301-975-0702



US DEPT OF TRANSPORTATION
DOROTHY A. CHAMBERS
FOIA DIVISION
400 7TH ST SW, ROOM 5432
WASHINGTON, DC 20590

4/20/98

CONTROL NUMBER 154550

PURSUANT TO THE PROVISIONS OF THE FREEDOM OF INFORMATION ACT, PLEASE PROVIDE US WITH A PAPER COPY (PREFERABLY NOT MICROFICHE) OF THE FOLLOWING DOCUMENTS. IF THE COST OF PROVIDING THESE DOCUMENTS WILL EXCEED 100.00, PLEASE CALL US FIRST FOR AUTHORIZATION OF THE CHARGES, UNLESS INDICATED OTHERWISE BELOW.

PLEASE REFER TO OUR CONTROL NUMBER IN YOUR REPLY.

WE WOULD LIKE TO REQUEST THE FOLLOWING INFORMATION FROM THE SURFACE TRANSPORTATION BOARD: COPY OF ALL RELEASABLE

data (including memos, correspondence and other records) relied upon in Surface Transportation Board Decision STB Service Order No. 1518, decided February 17, 1998, STB Ex Parte No. 573, decided February 25, 1998, and STB Finance Docket No. 32760 (sub-No. 21), service date March 31, 1998, such as, for the Board's conclusion,

"As we have noted, the evidence shows that this emergency was caused in large measure by a transportation in and around Houston that is not adequately equipped to deal with natural surges in a growing economy, or with temporary reductions in railroad capacity caused by derailments, weather, and so forth." and similar statements. (See attachments to this letter.)

In sum, we hereby request all documentation for the Board's finding that the service emergency was "a key factor" in or "in large measure" caused by "the inadequate rail facilities and infrastructure in the region."

We agree to pay reasonable search and reproduction costs for this material up to \$150.00. Let us know if the cost is likely to exceed this amount.

STEVE BARKLEY
Vice-President Transportation

UNION PACIFIC RAILROAD COMPANY



24126 Aldine Westfield Rd.
Spring, Texas 77373
(281) 360-7201

May 29, 1998

Mr. Larry Fields
President
The Texas Mexican Railway Company
P.O. Box 419
Laredo, TX 78042-0419

Dear Larry:

I am writing to memorialize the offer UP has extended to TexMex to participate in coordinated dispatching at the recently established Consolidated Dispatch Center (CDC) located in UP's Spring, TX office building. The possibility that both Tex Mex and KCS would participate in coordinated dispatching was expressly recognized in the Term Sheet Agreement establishing the CDC. Specifically, Section II. 7 of the Agreement stated that coordinated dispatching would include KCS and Tex Mex . . . as appropriate, and Exhibit C to the Agreement provides in paragraph (e) that KCS/Tex Mex should be offered the opportunity to dispatch their lines in the Gulf Coast area from the Consolidated Dispatching Center. The purpose of this letter is to eliminate any possible uncertainty on TexMex's part about what UP has proposed.

Under the terms of the Emergency Service Order, TexMex has placed an observer in the CDC. The TexMex observer is Ron Nichols, a former UP operating officer. UP has provided Mr. Nichols with a workstation within the CDC and has also furnished TexMex with access to a workstation located on the first floor of the Spring office building outside of the CDC.

UP believes TexMex should expand its presence in the CDC. Specifically, UP believes TexMex should place its train dispatchers responsible for dispatching the TexMex line between Robstown and Laredo in the CDC to facilitate coordination with the UP and BNSF dispatchers located in Spring. UP would expect TexMex to pay for the remodeling cost and workstations necessary to support its dispatchers and a Tex Mex corridor manager. TexMex would also pay a monthly lease for the space occupied. This is exactly the same agreement reached with BNSF. The time frame for this proposal is for so long as the CDC remains in operation. It is not limited to the duration of the emergency service order.

With TexMex dispatchers located in the same facility as UP and BNSF dispatchers, it will be possible to better coordinate the activities of all three railroads. Good coordination is the objective of the CDC, and experience to date with BNSF indicates that this coordination is working extremely well to improve train operations of both railroads. Accordingly, we are hopeful that TexMex will take advantage of this offer and locate its dispatching operations at Spring.

Mr. Larry Fields
May 29, 1998
Page 2

As you know, BNSF and UP have established a Joint Service Standards Committee. This committee oversees dispatching of all lines that are dispatched from the CDC. It determines overall dispatching policies and ensures that all railroads receive equal treatment. It is also far along in the process of establishing agreed standards by which dispatching can be measured, so that equal dispatching can be enforced and guaranteed.

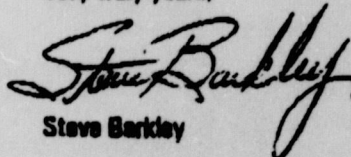
UP has previously invited you to participate as a member of the Joint Service Standards Committee, and UP continues to believe that TexMex should participate, with co-equal responsibility for overseeing dispatching on all Gulf Coast lines that TexMex uses, in and beyond Houston. TexMex can join UP and BNSF in establishing enforceable dispatching standards to ensure equal treatment for all railroads. In practice, the Joint Service Standards Committee could meet in separate sessions, if necessary, consisting of all three railroads where all operate over a line, of TexMex and UP when TexMex operates over a UP line and BNSF does not, and of BNSF and UP when BNSF operates over a UP line (or vice versa) and TexMex does not. We cannot speak for BNSF, but we expect BNSF to agree to TexMex's full participation, and we will strongly encourage BNSF to join us in renewing this invitation. (If BNSF will not agree, UP will establish a separate committee between our two railroads.)

TexMex has raised numerous complaints about UP and BNSF dispatching in the Gulf Coast area and complains that it is excluded from the process. It is now seeking dispatching records to try to prove mistreatment. The only reason TexMex is in this position is that it is refusing to accept the opportunities available to it to exercise oversight and exert direct influence over the handling of its trains as a working participant at the CDC. UP calls on TexMex to join us in constructive actions to remedy any problems that might exist, instead of throwing stones from the sidelines and pursuing other regulatory agendas. We are ready to work together when you are.

Finally, UP and BNSF Vice Presidents responsible for operations in Texas are located at the CDC. Tex Mex's Vice President-Transportation is currently located at Union Station in Houston. The station will soon become part of the new baseball park development in Houston and this office will need to be relocated. UP is agreeable to having TexMex's Vice President-Transportation utilize an office at Spring. Again, UP would expect to be reimbursed for the cost of remodeling space to accommodate the TexMex Vice President and would also expect payment of a monthly lease charge for the space.

If you would like me to clarify any issues regarding TexMex participation in coordinated dispatching, please let me know.

Very truly yours,


Steve Barkley

**Resolution of the Board of Directors
Competition in Houston Freight Rail Service**

Statement of Position

The freight rail service issues affecting the local economy, Houston area commercial interests and the Port of Houston continue to be of great concern to the Greater Houston Partnership. This crisis has exposed a weakness in the manner with which the United States addresses rail service and may lead to a fundamental restructuring of rail service statutes and regulations. Until those changes can be adequately addressed, Houston must seek incremental changes in rail service to help secure a competitive Port and industrial sector.

Principles

The recommendations which follow are predicated on the following principles:

1. Houston's rail system performance must be "in the top tier of United States cities." To be in the top tier of cities, service and rates must also be truly competitive in order for the Port and local industry to compete domestically and internationally, and
2. It is preferable that the private sector rectify noncompetitive situations through equitable compensation, but we realize that federal statutes and regulations constitute a fundamental roadblock in some cases and should be modified.

Recommendations

1. The Surface Transportation Board (STB) should immediately investigate the effect of the emergency service trackage rights on improving the performance and competitiveness of the freight rail system in the Houston-Gulf Coast. If the data indicate that long term improvements in service have been achieved or can reasonably be expected to be achieved with the removal of remaining obstacles to the effective use of such trackage rights, the STB should provide a mechanism for the railroad(s) having temporary rights to buy permanent rights at an equitable price from the owning railroad.
2. The Port of Houston, owner of the Port Terminal Railroad Association (PTRA), and all long haul railroads serving Houston should be full and equal voting members of the PTRA Board.

3. The Surface Transportation Board should provide a mechanism for all railroads serving Houston to buy trackage rights and access rights at an equitable price to the following areas to provide greater competition for Houston area shippers:
 - a) The trackage currently owned by the Port of Houston and operated by the PTRRA;
 - b) The trackage historically owned by the Houston Belt and Terminal prior to its dissolution; and
 - c) Additional trackage as determined by the governing body of the neutral switch and shippers as allowed by financial considerations.
4. Operation of a neutral dispatching, switching, and car movement system should be undertaken by a single third party. The operator should be the reconstituted PTRRA as previously described serving as the governing authority over the trackage accumulated as recommended in item 3.
5. The Union Pacific should be encouraged to reach an agreement with other long haul carriers to arrange the sale or lease of abandoned trackage and underutilized rights of way and switching yards which might allow shippers and the Port of Houston additional rail system competitiveness, capacity, flexibility and geographic access. The STB should mediate the negotiations of the parties involved.
6. The STB should order the reconstituted PTRRA to develop a regional master plan of added facilities and operations needed to provide system capacity in excess of demand for the foreseeable future.

Background

Since the Partnership Board's March resolution on freight rail service, evidence has been mixed as to whether or not freight rail service has measurably improved. Data show key indicators of rail service are improving but remain well outside accepted standards.ⁱ Disturbingly, we note the unacceptable delays in rail shipment of aggregate which are causing severe hardships for a major portion of the region's economy. Beyond the immediate Houston area, the Union Pacific system still operates beyond its own "benchmarks" for service for trains held for power, crews and congestion and blocked sidingsⁱⁱ.

These issues confirm the Partnership's March statement that "service disruptions may not be satisfactorily resolved among the participants in the best long term interests of the Houston area unless the Surface Transportation Board (STB) indicates an interest in acting swiftly and forcefully." Despite issuing several new proceedings under their merger oversight responsibility, the STB has not taken any actions beyond the extension of an emergency service order granting Texas Mexican Railroad temporary trackage rights. Without much success, several attempts have been made by the Union Pacific and shipper groups to jointly identify appropriate actions each could take to ease the immediate crisis.

Additionally, Union Pacific by order of the STB, has released a plan for infrastructure improvements in the Houston-Gulf Coast.

Many Houston shippers are now expressing a concern which seems related to the current service difficulties of the merged Union Pacific and Southern Pacific and the growing difficulty of shippers to obtain competitive service and rates. That concern is for the level of rail service needed for a competitive Gulf Coast economy and the degree of rail industry competition needed to achieve that goal. Railroad consolidation in Houston follows a national trend encouraged with antitrust immunity granted by the Staggers Act. The consolidation in Houston from six to two Class 1 railroads over the last several years has resulted in an 80 percent market dominance by one railroad. Additionally, deregulation and consolidation have left too many shippers captive to a single railroad. This combination of factors does not bode well for the competitiveness of individual shippers, the Port of Houston and the economy as a whole.

The movements of rail cars and trains in Houston from numerous railroads were facilitated at one time by a neutral dispatching and switching system. One system, the Houston Belt and Terminal, was dissolved in November, 1997. The other, the Port Terminal Railroad Association, with its routes and track owned by the Port of Houston, continues serving the Port and industries north and south of the Ship Channel.

We believe these issues are adversely affecting local shippers and the Houston economy. Unless some corrective action is taken at the federal level, in the long term, the cost of operating in a large portion of the Houston area may well become competitively disadvantageous.

/original signed/

Ansel L. Condray, Chairman

/original signed/

Jim C. Kollaer, President & CEO

/original signed/

Ned S. Holmes, Secretary

¹ Union Pacific "Weekly Service Recovery Reports" and Accompanying Letters to the STB

² *ibid.*

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June 10, 1998

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Washington, D.C. 20006-3939

Re: Finance Docket No. 32760 (Sub-No. 26)

Dear Bill and Dick:

At the June 1 hearing before ALJ Grossman, Tex Mex's Vice President-Operations, Patrick Watts, described an incident witnessed by Tex Mex's observer in the Spring Dispatching Center that was asserted to reflect "discrimination" against Tex Mex's trains on the part of joint UP-BNSF dispatchers. We have carefully investigated this alleged incident and determined that no act of discrimination occurred.

Mr. Watts asserted that Tex Mex's eastbound/northbound train was held at Houston for over two hours on Thursday, May 28, because two UP trains were routed against-the-flow on UP's Beaumont Subdivision. See Tr., pp. 52-55. In fact, Tex Mex's train was not delayed at all by these trains. It would be more accurate to state that UP's trains were kept waiting by Tex Mex's train.

The facts are as follows:

Tex Mex's northbound/eastbound train, MMXSH-27, passed Houston's New South Yard at 12:25 pm and arrived at Houston's Basin Yard at 1:31 pm on

William A. Mullins, Esq.

Richard A. Allen, Esq.

June 10, 1998

Page 2

May 28. The train spent two hours and 16 minutes switching at Basin Yard. During that period, the HBT East Belt was quite busy. A different Tex Mex train, this one southbound, finished its work at Basin Yard and departed, a BNSF train arrived from the east and entered PTRAs North Yard (adjacent to Basin), and a UP westbound train passed Basin.

After it left Basin Yard at 3:47 p.m., the northbound/eastbound Tex Mex train (MMXSH-27) encountered no delay as it proceeded east toward Beaumont. From Basin Yard, it proceeded along the East Belt, crossed the former-SP mainline at Tower 87, and operated through Settegast Yard without stopping, reaching Settegast Junction, on the north end of Settegast Yard, at 4:16 pm. Tex Mex's train then proceeded east on UP's Beaumont Subdivision. It was the first train in a fleet of UP and BNSF eastbound trains out of Houston.

Long before Tex Mex's train arrived at Houston, the joint UP-BNSF dispatchers had decided to route two UP westbound trains -- MALMX-27 and MAVHO-26 -- against the flow on UP's Beaumont Subdivision. This decision was made because, at the time UP's trains were approaching Beaumont, there were no eastbound trains called at Houston and westbound trains holding at Beaumont had already caused congestion there. The two UP trains were therefore allowed to continue west toward Houston, using their existing crews, rather than tying up at Beaumont and awaiting re-crews later that day. Both UP trains departed Beaumont hours before Tex Mex's train had arrived at Houston: the MALMX-27 departed Beaumont at 6:54 am, and the MAVHO-26 departed at 9:45 am.

At 4:19 pm, Tex Mex's MMXSH-27 met the first of these two westbound trains -- MALMX-27 -- at Dyersdale, the first siding east of Settegast Junction. The UP train had been holding in the siding at Dyersdale waiting for the arrival of MMXSH-27, which operated past Dyersdale on the mainline without delay. UP's train, not Tex Mex's, incurred all the delay.

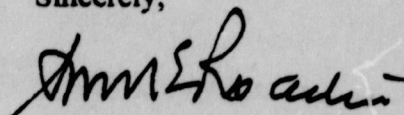
At 4:41 pm, MMXSH-27 met the second of the two UP westbound trains -- MAVHO-26 -- at Huffman. MAVHO-26 had been holding between the switches at the siding at Huffman for over four hours (since before the MMXSH-27 arrived at Basin Yard). Tex Mex's train operated through the siding at Huffman

William A. Mullins, Esq.
Richard A. Allen, Esq.
June 10, 1998
Page 3

without stopping and departed Huffman by 4:46 pm. Again, the UP train incurred all of the delay.

UP is committed to treating Tex Mex trains fairly. KCS/Tex Mex is apparently equally committed to arguing that Tex Mex's trains are not being treated fairly regardless of the facts. In light of the divergence between the facts and Mr. Watts' characterization of this incident, we strongly urge you to make better use of the rights KCS/Tex Mex have at the Spring Dispatching Center. Tex Mex's neutral observer at Spring could have easily cleared up this misunderstanding of the facts were KCS/Tex Mex not bent on mischaracterizing dispatching decisions in order to further the strategy of seeking additional Board-imposed rights. We also urge you to encourage Tex Mex officials to accept UP's invitation for Tex Mex to become a full participant in the Dispatching Center, which would further strengthen Tex Mex's ability to oversee the dispatching of Tex Mex trains.

Sincerely,



Arvid E. Roach II

cc: Hon. Stephen Grossman (by hand)
Hon. Vernon A. Williams (by hand)

BEFORE THE SURFACE TRANSPORTATION BOARD

STB. Ex Parte No. 628

EXPEDITED RELIEF FOR SERVICE INADEQUACIES

COMMENTS
OF THE
CHEMICAL MANUFACTURERS ASSOCIATION

June 15, 1998

The Chemical Manufacturers Association ("CMA") is a non-profit trade association whose 191 member companies account for more than 90 percent of the productive capacity for basic industrial chemicals in the United States. The chemical industry annually ships close to 140 million tons by rail and spends over \$5 billion on rail freight charges, which represents 15 percent of the railroad industry's total revenue. Virtually every sector of the US economy depends on industrial chemicals for essential raw materials. For many of these chemical products, rail is the only practical mode of transportation.

CMA appreciates the opportunity to comment on the proposal of the Surface Transportation Board ("Board") in this docket (63 FR 27253, May 18, 1998). That proposal would establish expedited procedures for shippers to obtain alternative service from another rail carrier when the incumbent carrier cannot properly serve shippers. Because many chemical plants are "captive" to a single railroad, CMA member companies generally lack access to alternative rail service when service disruptions occur. The Union Pacific service disruption, at its peak, cost CMA member companies tens of millions of dollars per month. This created ripple effects throughout the US economy. Much of this crisis might have been mitigated had shippers had access to an alternative rail carrier.

CMA agrees with the Board's desire to be flexible in interpreting a shipper's petition for relief. Only the shipper can properly assess whether its needs are being met. However, CMA further requests that this standard of relief be broadly interpreted, such as to incorporate new business opportunities where an incumbent carrier is unable or unwilling to provide the service requested.

CMA has a fundamental concern with the standard of relief in 49 CFR 1146.1(b)(1)(iii):

A commitment from another available railroad to provide alternative service that would meet the shipper's needs, and how that carrier would provide the service safely without degrading service to its existing customers or unreasonably interfering with the incumbent's overall ability to provide service; (o3 FR 27255)

CMA believes that this standard would require a cooperative, willing alternative rail carrier's commitment to seek remedies under this proposal. There are many reasons why an alternative rail carrier may not wish to provide service to an impacted customer. The following are examples of such reasons:

- Inadequate financial incentive to cover the startup costs for new business for a short period of time; or,
- Fear of retaliation elsewhere from the incumbent, particularly if the alternative rail carrier is a small railroad.

To address some of these issues, CMA suggests that the alternate service relief, if ordered by the Board, remain in place for the duration of the existing contract or three years, whichever is less (unless relief is limited in the case of an emergency service order issued under 49 USC 11123(a)). This should provide enough incentive for a second carrier to willingly agree to plan and implement the alternative service.

If a second carrier is still unwilling to submit a plan to provide the service relief safely and without denigrating service to its other customers or unreasonably interfering with the incumbent's ability to provide service, CMA suggests that the shipper should then be allowed to file such a plan with the Board separately. If such a plan is acceptable, the Board should be able to order service from a reluctant railroad under 49 USC 11123(a), or provide the shipper with the means to negotiate with a second carrier.

Furthermore, CMA requests that the Board clarify the following points in its final rule:

- The Board may direct relief even if an existing contract with the incumbent carrier is in place; and,
- The Board should specify whether there is a maximum duration to the service relief.

Finally, CMA commends the Board for proposing that a transportation emergency that calls for relief under 49 USC 11123(a) should also establish a rebuttable presumption that the emergency will continue beyond 30 days. CMA therefore strongly supports proposed 49 CFR 1146.1(c).

CMA appreciates the opportunity to provide these comments and believes they will, if adopted, result in improvements to the proposed expedited relief procedures.

CERTIFICATE OF SERVICE

I hereby certify that I have this day, in accordance with the Board's decisions in STB Ex Parte No. 628 that were served on May 18 and June 9, 1998, served copies of the Comments of the Chemical Manufacturers Association on all parties of record, by first-class mail.

Thomas E. Schick
Thomas E. Schick

June 15, 1998

BEFORE THE
SURFACE TRANSPORTATION BOARD

Ex Parte No. 628
EXPEDITED RELIEF FOR
SERVICE INADEQUACIES

COMMENTS OF
CHEMICAL LIME COMPANY

John D. Heffner
Rea, Cross & Auchincloss
1707 L Street, N.W.
Suite 570
Washington, DC 20036
(202) 785-3700

Counsel for Chemical Lime Co.

DATED: June 15, 1998

"fix" for a "rail service emergency." CLC's concern is that the length of that solution -- 270 days -- the longest period permitted by the pertinent statute -- 49 U.S.C. 11323(a) -- may be inadequate to correct the problem. If so, the Board should seek an extension of its authority by means of new legislation.

CLC would like to begin its presentation by telling the Board of its recent rail service problems in the West before commenting specifically on the Board's proposal. As one example, CLC presently owns a facility at Marble Falls, TX, located on a rail line that extends from Llano to Giddings, TX, owned by the Capital Metropolitan Transportation Authority and operated by its contract short line railroad operator, the Longhorn Railway Company. That facility presently ships product to a receiver near Beaumont, TX, using Longhorn to an interchange with UP at McNeil, TX. Formerly the freight movement required a transit time of about 7 days. Due to UP's service problems in Houston, that haul now requires at least 15 days. This service disruption has hurt CLC in several different ways. First, UP's inability to supply cars has meant that Longhorn has been unable to meet its customer needs. That resulting loss of revenue has had a devastating and life threatening impact on Longhorn's very financial existence. Second, service disruptions have substantially increased CLC's demurrage expense. While CLC can obtain demurrage relief, CLC has incurred significant additional

administrative expenses to resolve this type of problem.³ Third, in order to meet customer demand, CLC has been forced to acquire by purchase or lease its own 64 freight car fleet. Slow transit times incurred in connection with that car fleet have increased CLC's costs by about \$60,000 annually. Fourth, in order to meet customer commitments, CLC has on numerous occasions been forced to substitute more expensive truck⁴ for rail service. Unfortunately, the price differential between rail and truck is substantial enough to erase the modest profit CLC was making on these product sales.⁵

CLC's worst rail transit experiences involve movements from its Bancroft, ID, plant to its Rolla (Denver area), CO, terminal, an all UP move. Formerly, the movement required about 5 to 7 days. Today, the same trip takes 10 to 20 days. UP's transit delays have affected CLC by some combination of slower movements and higher transportation related costs (resulting in higher demurrage or car supply costs) or the substitution for rail of more expensive truck service. On a number of occasions rail service delays resulted in a CLC terminal running out of material.

CLC could cite additional stories but one more will suffice. CLC currently moves traffic from Marble Falls, TX, to

³ Expenses incurred in auditing demurrage bills and obtaining appropriate relief in the form of waivers or refunds.

⁴ CLC has its own fleet of trucks.

⁵ In many cases CLC absorbs the transportation costs.

**BEFORE THE
SURFACE TRANSPORTATION BOARD
EX PARTE NO. (628)
EXPEDITED RELIEF FOR SERVICE INADEQUACIES**

**COMMENTS SUBMITTED BY
CEMEX USA MANAGEMENT, INC.**

**Eckert Seamans Cherin & Mellott, LLC
1250 24th Street, N.W.
Suite 700
Washington, D.C. 20037**

Counsel for Cemex USA Management, Inc.

**Cemex USA Management, Inc.
One Riverway
Suite 2200
Houston, Texas 77056**

June 15, 1998

Cemex USA Management, Inc. strongly supports the thrust of the rule proposed in STB Ex Parte No. 628 and urges the STB to issue a final rule as soon as practical.

Cemex USA is one of the largest producers of cement, ready-mix and aggregate in the United States. Cemex began operations in 1906, and its U.S. operations are conducted in California, Arizona, and Texas. Cemex USA's Balcones facility in New Braunfels, Texas, includes a cement plant with a production capacity of 1.1 million tons per year. Asphalt and aggregate plants at the facility have an annual production capacity of 3.8 million tons per year. Cemex USA is headquartered in Houston, Texas.

Cemex USA is a classic example of a captive shipper. Its Balcones plant is served exclusively by the Union Pacific Railroad, which has been the case since the Union Pacific acquired the only competing rail provider, the Missouri-Pacific Railroad/Missouri-Kansas-Texas Railroad. Because of the bulk nature of Cemex USA's products, rail is the only viable mode of transportation to service its inland markets. Cemex USA is thus a captive shipper in two regards: first, it can only ship by rail to most markets; and second, it can only ship via Union Pacific.

The recent and continued service problems being experienced by Union Pacific have severely impacted Cemex USA. The rail cycle time (*i.e.*, the number of days required to deliver a full rail car to its destination and return it for refilling), particularly for shipments of aggregate (stone), continues to be excessive. This service failure has caused Cemex USA irreparable harm. Cemex USA has lost customers and revenues and was forced to reduce employment at its plant.

Some of Cemex USA's competitors, not confined to Union Pacific service, have experienced significantly less impact than Cemex USA. At least one competitor, served by both Union Pacific and the BNSF, has avoided much of the harm Cemex USA and its customers have suffered by shifting significant portions of its traffic to BNSF after the Union Pacific service crisis began.

①

Ex Parte No. 628

WESTERN COAL TRAFFIC LEAGUE

By: William L. Slover
Peter A. Pfohl
Slover & Loftus
1224 Seventeenth Street, N.W.
Washington, D.C. 20036
(202)347-7170

Attorneys and Practitioners

Dated: June 15, 1998

agree with the Board that appropriate agency procedures must be established to immediately make available alternative carrier service to shippers during any future periods of rail service failure.

I. CPSB's Experience During the Western Service Crisis

The seriousness of the western railroad service crisis cannot be overstated. CPSB and other League members are dependent upon the railroads to deliver to us sufficient volumes of fuel necessary to meet our generation systems' fossil fuel requirements. The reliability of CPSB's electric generation system, and our ability to serve customer demands, is at stake.

In order to meet customer loads, CPSB has two coal burning generating stations, the J.T. Deely Generating Station the J.K. Spruce Generating Station, both of which are located at Elmendorf, Texas and which together burn approximately 5 Million tons of coal annually (and which would burn over 6 million tons a year if deliveries allowed). The vast majority of our coal moves via the Union Pacific ("UP"), with a much smaller portion moving via the Burlington Northern & Santa Fe ("BNSF") (through a UP/BNSF trackage rights agreement).

As a result of the UP's service meltdown, CPSB and other League members experienced severe problems in meeting our system fuel needs. In June 1997, CPSB began suffering severe deficiencies in UP coal deliveries, which, in turn, caused CPSB critical fuel shortage problems. Our coal stockpiles dwindled, and we were forced to exercise several options to control coal

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June 17, 1998

BY FACSIMILE AND FIRST CLASS MAIL

Arvid E. Roach II, Esquire
Covington & Burling
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RE: Finance Docket No. 32760 (Sub-No. 26)

Dear Arvid:

We are in receipt of your June 10, 1998 letter in which you address a dispatching incident that was previously discussed at the June 1 discovery conference before Judge Grossman. Tex Mex/KCS believe that the Digicon tapes will be the ultimate determiner of the facts regarding this incident. Nevertheless, we appreciate the time you have taken to express UP's view with respect to the incident in question.

With respect to the last paragraph in your letter, we believe that the record should be clarified regarding your offer that Tex Mex become a "full participant" in the Joint Dispatching Center. Tex Mex has employed a neutral observer to monitor the situation in the Joint Dispatching Center. However, Tex Mex has no say in the way the lines around Houston are dispatched, nor does Tex Mex have a say in the selection of the actual dispatchers. As you pointed out during the discovery conference, UP is the one to actually make the dispatching decisions, and Tex Mex may not fire or even reprimand dispatchers who discriminate against Tex Mex trains. See Tr., p. 59. All that Tex Mex can do, in either the Spring or Harriman centers, is sit there and watch its trains be discriminated against, and even as to that function, UP has recently stated that it will be placing "limitations on Tex Mex's access" in the Joint Dispatching Center. Letter of David Meyer dated June 15, 1998 to Hon. Vernon A. Williams in STB Service Order No. 1518. Being able to sit and watch does not amount to being a "full participant."

ZUCKERT, SCOUTT & RASENBERGER, L.L.P.

Arvid E. Roach II, Esquire

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These concerns regarding how Tex Mex's participation is defined, as well as other clarifications, have recently been addressed to UP in a letter from Larry Fields, President of Tex Mex to UP's Vice President of Transportation, Steve Barkley dated June 5, 1998 (attached).

Sincerely yours,

Richard A. Allen
Counsel for The Texas Mexican
Railway Company

William A. Mullins
Counsel for The Kansas City Southern
Railway Company

cc: Hon. Stephen Grossman
Hon. Vernon A. Williams



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June 17, 1998

Mr. Randy Speight
Chemical Manufacturers Association
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Arlington, VA 22209

Dear Randy:

Thank you for inviting BNSF to participate in, and to present our views to, the meeting in Pasadena on June 10, 1998. We believe the meeting showed that there is much common ground between BNSF's position and that of the Competition Coalition. This letter sets forth BNSF's positions on the various components of the Coalition's proposals for the July 8th filing to the STB.

As explained in the meeting, BNSF's requests are directed at permanent structural changes to the UP/SP merger conditions in the Houston/Gulf Coast area to improve operations and reduce congestion in the near term and to reduce the possibility of such problems reoccurring in the future. These changes should enable BNSF to provide the competitive service for our customers contemplated by the STB at the time of approval of the UP/SP merger.

Based on comments during and after the meeting, it appears the group understands and supports all of BNSF's proposed requests for permanent conditions, except for the San Antonio-Laredo overhead trackage rights request over UP. We further understand that individual companies and members of the group would plan to support many of BNSF's positions in response to the Board after July 8. It also appeared that one BNSF draft proposal, involving PIRA control and neutral switching on the UP Clinton Branch in Houston, will be considered for incorporation in your proposed July 8 filing.

After due consideration and internal discussion at BNSF earlier this week, we have concluded that BNSF is not in a position to join the Coalition in its July 8th filing. While there are a number of areas, as we discussed last Wednesday, where the views of the group and BNSF are identical or quite similar, there are several areas where our positions cannot be reconciled. We believe the better course is for BNSF and the Coalition to file responses to the July 8th filings supporting those portions of each other's proposals where possible.

To answer the questions posed to Mike and me at the June 10 meeting, I will review the group's specific proposed filing points and BNSF's position on each in the same order as the proposals were listed in the May 22 draft we were provided.

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1. a) BNSF opposes lifting this restriction on a permanent basis. We continue to believe the service problems in the Houston/Gulf Coast have not been caused by a lack of access, but by flawed UP-SP merger implementation plans, data exchange issues between the UP and SP systems prior to takeover, and lack of infrastructure. This proposal appears to be an attempt by KCS and Tex Mex to gain access to business they have not had access to long-term, independent of solving Houston-area operational problems.

BNSF also believes that the quality of service and competition for Houston traffic is not determined by the number of railroads a customer has access to, but those carriers' ability to provide a commercially acceptable product. BNSF continues to believe, by fully implementing the merger conditions and taking advantage of changes we have been able to achieve since the merger, we can provide rail shippers with long-term competition at least as good as SP provided in the past.

In addition, requiring Houston switching carriers to build additional "blocks" for Tex Mex northbound as well as southbound has the potential to add further complexity to Houston area switching, potentially affecting service for all customers and all Houston serving railroads.

b) BNSF supports this proposal, subject to Tex Mex agreeing to a standard BNSF contract requiring Tex Mex to share in capacity improvements required by additional Tex Mex business operating over BNSF between Algos and T&NO Junction. In addition, the compensation should be the same as the STB ordered for other Tex Mex trackage rights lines.

c) BNSF supports this proposal.

2. BNSF supports this proposal to the extent it applies to industries currently open to reciprocal switching. The STB order would need to insure BNSF would not incur labor liability. Further, BNSF must continue to have exclusive use of New and Old South Yards for train makeup in Houston. With the expanded role BNSF has undertaken to serve shippers as a result of the UP/SP merger, BNSF cannot provide efficient service unless it maintains exclusive use of these facilities. In addition, BNSF is looking for ways to increase our capacity in the area.

3. BNSF opposes this proposal for the expansion of the Houston neutral switching area. As we stated in Proposal 1(a) above, BNSF does not believe the current situation in the Houston/Gulf Coast area was caused by a lack of access. The proposal has nothing to do with improving operations, but instead involves massive additional access. BNSF believes that access

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issues should be resolved in the various proceedings in progress before the STB. In addition, to make the proposal workable and not degrade service for all customers in the area would require infrastructure investment.

4. We have no problem with the concept of neutral dispatching, because the concept is already in place at the Spring joint dispatching center. We believe the location at Spring is not an issue impeding the center's performance. Operation and dispatching of the Houston terminal cannot be separated from operation and dispatching of the lines feeding into, out of, and through the Houston terminal, as BNSF and UP have set up at Spring - if lines radiating from Houston are congested and backed up, the terminal cannot function, no matter what entity controls dispatching. Tex Mex already has a representative at the Spring Center, and plans to move its dispatchers there early in September.

BNSF supports the concept that carriers operating through the Houston terminal be permitted trackage rights to use the best available routes through Houston, and not just the lines that BNSF and Tex Mex currently have trackage rights over.

5. BNSF supports this proposal.

6. BNSF does not object to this proposed transaction, subject to the ability of a willing buyer and a willing seller being able to mutually work out an acceptable transfer of these assets. At this time, BNSF does not foresee a need for trackage rights over this route if the line is restored.

We note that, perhaps an oversight, Tex Mex does not offer to give up its trackage rights over UP between Ft. Worth and Victoria, or between Placido and Alcoa, and over BNSF between Alcoa and T&NO Junction. If the Rosenberg-Victoria route is restored, BNSF would expect Tex Mex's right to operate over BNSF between Alcoa and T&NO Junction to be extinguished.

7. We support the concept that Tex Mex needs its own yard in the Houston area to accomplish interchanges, setouts and pickups. BNSF has considered, but does not have space to give up for Tex Mex use, at its limited capacity facilities, Old South and New South Yards.

From our perspective, Booth Yard, while not ideal, is a workable facility. However, it appears UP is currently using a portion of Booth Yard for local industry support, and the balance of the facility, not out of service, is used for storage of private empty equipment. It is not for BNSF to comment on UP's ability to give this facility up. Identifying alternative locations for

Mr. Randy Speight
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these activities, which would not damage service for others or intensify congestion elsewhere, would need to be addressed if Booth Yard were to be acquired by Tex Mex.

As an alternative, should Tex Mex choose to establish a new facility to meet its Houston-area needs, BNSF would facilitate Tex Mex's development of property adjacent to BNSF's Mykawa Sub between Alvin and New South Yard for construction of a new yard, including establishment of turnouts to and from the BNSF main line.

8. As a prospective 50% owner in the former SP main line and operating sidings between Houston (Dawson) and Iowa Junction through Beaumont, BNSF opposes this series of transactions. It goes far beyond what the merger conditions called for and anticipated. It would take years to accomplish the necessary construction to provide the intended relief for Tex Mex overhead service on this route. And, it would not necessarily lead to an increase in capacity needed for all carriers - Tex Mex, the low density carrier, would own one of the two available routes between Houston and Beaumont, with the higher density carriers, BNSF and UP, on the other route.

The real issue to be considered is how Tex Mex trains between Houston and Beaumont can be moved over the railroad with equal priority and dispatch to the class trains of BNSF and UP nearterm. BNSF continues to believe the best way to insure this outcome is for Tex Mex's full involvement and participation in the Spring joint dispatching center, which is underway, and for Tex Mex to join the directional flows now being used by BNSF and UP between Houston and Beaumont.

If, after review any of this information, you or members of the coalition have additional questions, please do not hesitate to contact either Mike Roper or myself.

Sincerely,



cc: Tom Schick
Rob Krebs
Mike Roper

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June 19, 1998

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Re: Finance Docket No. 32760 (Sub-No. 26)

Dear Dick:

This is in response to your letter of Wednesday afternoon, June 17, which was also signed by Bill Mullins on behalf of KCS. Your letter takes issue with the last paragraph of my letter to you of June 10, which underscored UP's commitment to treat Tex Mex trains fairly and reiterated UP's invitation to Tex Mex to become a full participant in the Consolidated Dispatching Center in Spring, Texas. You assert that all Tex Mex can do at the Spring Dispatching Center is "sit there and watch its trains be discriminated against."

This assertion, as you well know, is manifestly untrue. Your letter continues KCS/Tex Mex's campaign of non-cooperation and baseless accusation in order to seek additional Board-imposed rights. Month after month, Tex Mex has chosen not to cooperate with efforts to improve Houston area rail operations, ignored opportunities to help improve the operation of its own trains, and portrayed itself as a helpless victim of non-existent discrimination. Tex Mex has extensive rights with respect to the dispatching of its trackage rights trains, but it has chosen not to avail itself of those rights in order to pursue a strategy of inventing disputes to bring before the Board as a supposed basis for granting additional conditions in favor of KCS/Tex Mex.

Tex Mex should devote its energies to cooperating with UP to operate Tex Mex's trackage rights trains more efficiently. It should begin by taking responsible action to exercise its existing rights:

Richard A. Allen, Esq.

June 19, 1998

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- The UP-Tex Mex trackage rights agreement provides for the establishment of a Joint Service Committee, comprised of the chief transportation officers of UP and Tex Mex, which is to meet regularly and be responsible for "establishing rules and standards as appropriate to ensure equitable and non-discriminatory treatment." Agreement, Exh. B, § 2.5. Although UP and Tex Mex representatives have met on occasion to discuss service issues, Tex Mex has never availed itself of the Joint Service Committee process. It should do so.
- The Dispatching Protocols agreed to between UP and Tex Mex give Tex Mex extensive rights with respect to the dispatching of its trains. For example, Tex Mex has the right to be admitted to UP's dispatching facilities and have access to personnel responsible for dispatching to review the handling of UP and Tex Mex trains on joint trackage. Dispatching Protocols, § 10. Tex Mex did not even put an observer into the Spring Dispatching Center until a few months ago, and that observer is present only a few hours a day. If Tex Mex were sincerely concerned about the handling of its trains, it should give its trains more attention.
- Contrary to your assertion, Tex Mex's observer is not restricted to "sitting and watching" the dispatching of Tex Mex's trains.^{1/} Tex Mex has the contractual right to raise with UP "questions, disagreements, concerns or disputes." UP-Tex Mex Dispatching Protocols, § 13. If such disputes cannot be resolved amicably by relevant operating personnel or the Joint Service Committee, Tex Mex is entitled to have them resolved promptly (within fourteen days) by binding arbitration. *Id.* Tex Mex has inquired with UP's General Director-Trackage Rights, Thom Williams, about a handful of dispatching episodes, which UP has investigated thoroughly and determined did not involve discrimination against Tex Mex. Tex Mex has apparently been satisfied with those

^{1/} Your implication that Tex Mex's observer has "sat and watched" while its trains were discriminated against is ludicrous. Tex Mex's observer has not brought any instances of perceived discrimination to UP's attention, with the exception of the one instance addressed in my June 10 letter, which Tex Mex chose to assert before ALJ Grossman rather than discussing it on the scene. As you know, Tex Mex completely misunderstood the situation.

Richard A. Allen, Esq.
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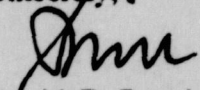
determinations, because it has never sought to have any dispute resolved by the Joint Service Committee or arbitration.

- UP has for several months been urging Tex Mex to move its own dispatchers and supervisors into the Spring Dispatching Center so that they can participate in the coordinated dispatching of Houston/Gulf lines. Such participation would make a positive contribution toward improving the efficiency of dispatching decisions in the region, and would also have the benefit of giving Tex Mex a 24-hour-a-day presence at the facility. Tex Mex should do this without further delay.

I have attached Steve Barkley's response to the questions posed by Mr. Fields in his June 5 letter, a copy of which you attached to your letter. Mr. Barkley has repeatedly explained to Tex Mex the expanded role it would have at the Spring Dispatching Center were it to accept UP's invitation to expand its participation there.

Were Tex Mex sincerely concerned about the handling of its trains or interested in helping to improve railroad operations in the Houston/Gulf Coast region, it would long ago have taken advantage of its contractual rights and joined in cooperative initiatives with UP. Instead, your letter is only the most recent manifestation of what appears to be a strategy of disavowing Tex Mex's commercial rights in favor of falsely portraying Tex Mex as a helpless victim of UP discrimination in litigation before the Board. If Tex Mex believes its trains are discriminated against, it should pursue its contractual rights to remedy that discrimination. Continual sniping before the Board is not productive and reveals the disingenuous nature of Tex Mex's discrimination claims.

Sincerely, .


Arvid E. Roach II

Attachment

cc: William A. Mullins, Esq.
Hon. Stephen Grossman
Hon. Vernon A. Williams

BEFORE THE
SURFACE TRANSPORTATION BOARD

Finance Docket No. 32760 (Sub-No. 21)

UNION PACIFIC CORPORATION, UNION PACIFIC RAILROAD COMPANY
AND MISSOURI PACIFIC RAILROAD COMPANY

-- CONTROL AND MERGER --

SOUTHERN PACIFIC RAIL CORPORATION, SOUTHERN PACIFIC
TRANSPORTATION COMPANY, ST. LOUIS SOUTHWESTERN RAILWAY
COMPANY, SPCSL CORP. AND THE DENVER AND
RIO GRANDE WESTERN RAILROAD COMPANY -- OVERSIGHT

APPLICANTS' SECOND ANNUAL REPORT
ON MERGER AND CONDITION IMPLEMENTATION

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July 1, 1998

UP's trackage rights agreement with Tex Mex also established a Joint Service Committee mechanism, identical to that set forth in the UP-BNSF trackage rights agreements, but Tex Mex has not availed itself of that process. In addition, UP has repeatedly urged Tex Mex and its parent KCS to participate in the Houston-area dispatching center opened at Spring, Texas, by UP and BNSF this February, but thus far they have not agreed to do so. Tex Mex has also failed to exercise its rights under the Tex Mex-UP dispatching protocol, the terms of which are modelled on the successful BNSF-UP dispatching protocol.

As previously reported, UP constructed a new connection at Flatonia to facilitate the movement of Tex Mex trains. Construction of a new connection at Robstown to handle Tex Mex trains was completed in June, and the construction of an associated siding is presently scheduled to be completed on July 15. Design work is complete for a new siding south of Flatonia, and construction will begin as soon as the necessary permits are received.

Finally, it should be noted that as a result of the Board's Service Order No. 1518, Tex Mex received additional temporary trackage rights designed to address the Houston/Gulf Coast service emergency. The Board temporarily suspended the restriction in Tex Mex's trackage rights that limited those rights to traffic having a prior or subsequent movement on Tex

BEFORE THE
SURFACE TRANSPORTATION BOARD

Finance Docket No. 32760

UNION PACIFIC CORPORATION, UNION PACIFIC RAILROAD COMPANY
AND MISSOURI PACIFIC RAILROAD COMPANY

-- CONTROL AND MERGER --

SOUTHERN PACIFIC RAIL CORPORATION, SOUTHERN PACIFIC
TRANSPORTATION COMPANY, ST. LOUIS SOUTHWESTERN RAILWAY
COMPANY, SPCSL CORP. AND THE DENVER AND
RIO GRANDE WESTERN RAILROAD COMPANY

THE BURLINGTON NORTHERN AND
SANTA FE RAILWAY COMPANY'S
QUARTERLY PROGRESS REPORT

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July 1, 1998

by other carriers in the Laredo market, including KCS, BNSF is unable to offer long-term commitments to shippers on competitive terms, and its inability to do so is a substantial impediment to BNSF's competitiveness at Laredo. BNSF's ability to compete at Laredo has also been adversely affected by the lack of competition among the privatized Mexican railroads. The failure of such competition to materialize has caused shippers to increasingly differentiate between the various Mexican gateways, and the adverse effects of the other problems BNSF is facing have been magnified by these unexpected developments.

Further, the dispatching service BNSF has been receiving in moving its trains over the former SP line between Kern Junction (Bakersfield) and Mojave, CA (the "Tehachapis Line") has deteriorated since the UP/SP merger, and BNSF has been experiencing unacceptable delays in moving its traffic. This line is critical to BNSF's ability to provide competitive alternative service to shippers in northern California. BNSF service is being adversely affected as a result of operating changes stemming from UP's acquisition of SP, and it appears that BNSF trains are not receiving equal dispatch in obtaining access to the Tehachapis Line. Unless BNSF receives such equal dispatching, shippers will be denied the effective competitive service to which they are entitled and which they previously had enjoyed.

Impediments to Fully Competitive Service

As discussed below, BNSF has encountered numerous impediments to full utilization of the merger conditions.

Mexico and the United States have become increasingly segmented and differentiated by the serving Mexican carrier to a degree not expected prior to the merger and that it is of increasing importance to shippers which Mexican carrier will carry their traffic to/from its destination/origin. Accordingly, the importance of providing competition in servicing Laredo north of the border for Transportacion Ferroviaria Mexicana ("TFM") customers has likewise increased, and the Board should act to assure that competition to that gateway is vigorous and viable for BNSF as a post-merger replacement for SP.

In sum, when the UP/SP merger was approved, the Board contemplated that BNSF would be able to provide effective competition to UP at the Laredo gateway under the conditions it imposed on the merger. The problems and concerns discussed above threaten to undercut that competition.

B. Structural Deficiencies and UP's Practices

Houston and Gulf Coast Area. Since the end of the second quarter of 1997, BNSF's rail operations in and around Houston have been adversely affected (i) by structural deficiencies in certain of BNSF's rights on UP's lines in the Houston and Gulf Coast area, and (ii) by UP's practice of favoring its trains over the trains of other carriers in situations where the continuing congestion and service problems on UP's lines preclude normal operations. Although there have been some periods of sporadic improvement, it is clear that the service problems are continuing and are likely to persist. The establishment of the Spring Consolidated Dispatching Center ("Spring Center")^{2/} has

^{2/} The Spring Center was established pursuant to the Term Sheet Agreement as a regional dispatching center located at UP's command center in Spring, TX. It became operational on March 15, 1998, and BNSF completed its relocation to the Spring Center

significantly helped the situation, but, in many cases, BNSF's trains are still being delayed due to the volume of trains and UP's handling of trains beyond the Spring Center's control. As a result, BNSF has been unable to provide the consistent and reliable service to its shippers that they deserve. Further, in the corridor between Houston and Memphis, BNSF remains unable to provide reliable scheduled service because of the erratic and unpredictable service provided by UP. It is necessary for BNSF, in terms of the use of its assets -- locomotives, cars, and employees -- and for its customers in terms of managing their assets and meeting their customers' needs, to restore BNSF's scheduled service to its scheduled and committed running times to, from, and through the Houston area and along the Gulf Coast.

Customers seeking to use BNSF service from points BNSF gained access to as a result of the UP/SP merger, or other customers accessed by BNSF in the Houston area via reciprocal switch service from UP, continue to find that their traffic is being delivered late. In some cases, these delays are attributable to congestion on UP lines over which BNSF has trackage rights operations. For example, because the Alcoa to Corpus Christi route is heavily congested with the through trains of UP, BNSF and Tex Mex, as well as with substantial local switching activity by UP for major chemicals and metals customers along the Gulf Coast, traffic moving over this route is frequently delayed and additional crews are required. In other cases, traffic has been delayed because UP has failed to adequately perform its switching or haulage functions for BNSF

on April 26, 1998. Tex Mex has committed to relocating its dispatchers to the Spring Center by the second week in September, 1998.

and its customers. For example, Baytown Branch shipments moving via haulage on the UP have often been delayed because UP gives preference to its trains over BNSF trains, otherwise fails to switch BNSF trains in a timely manner, or does not deliver outbound cars to BNSF at the Dayton, TX interchange. As discussed below, while service to customers has recently improved, that is due to intensive management of individual shipments by a BNSF customer service team. UP service on the branch has not changed.

BNSF has made numerous other efforts to assist in resolving the congestion and other service problems during the past year. For example, BNSF provided UP with 30 locomotives; permitted UP to operate one to two trains per day from Algoa to Ft. Worth; permitted UP to use BNSF trackage from Sealy to Smithers Lake to move unit coal trains for Houston Lighting & Power; permitted UP to operate from Rosenberg to Sweetwater, TX using BNSF crews; and provided BNSF power for northbound directional flows from Brownsville.

Notwithstanding these efforts, because of the congestion and service problems in the Houston area, BNSF is still a long way from providing reliable, dependable and consistent service to the shippers to which it gained access in the UP/SP merger proceeding. UP's problems are continuing and are likely to persist. BNSF, other carriers and Houston area shippers are now experiencing alternating cycles of several days of sporadic improvement in UP service followed by a number of days when service returns to near crisis levels. It is difficult for BNSF to provide the vigorous competition the Board anticipated in such an environment of unpredictable and unreliable service.

If BNSF is not given access to adequate tracks at Grand Junction, Winnemucca and Sparks, it will be forced to construct its own facilities. Given the fact that tracks and facilities remain unused by UP at these locations (and, in many cases, out of service), this appears to be an unnecessary capital expenditure and delays commencement of the competitive service expected by customers.

In addition to becoming increasingly insistent that BNSF establish its own facilities in lieu of using UP's facilities along trackage rights lines, UP is also insisting that these facilities not be tied directly into a mainline, such as at Midvale, UT. BNSF believes that the merger settlement agreement and conditions do not preclude BNSF from tying directing into the UP mainline.

Nevada. BNSF has had ongoing service problems handling movements of sulphuric acid from Kennecott Utah Copper's Magna, UT facility to Jayhawk, NV. Most of these problems appear to be caused by maintenance of separate UP and SP data operating systems west of Elko, NV. Currently, BNSF movement information for haulage by UP over the UP line or former SP line is in either, or both, UP's TCS and SP's TOPS systems. The use of both systems has caused considerable problems. For example, loaded cars destined for Jayhawk have been returned to Magna without ever being unloaded. During the first three weeks of April, 1998, 22 acid cars returned to Kennecott loaded instead of empty. As a result, customers expecting delivery are faced with product shortages, and the shipments have had to be shipped by truck to protect deliveries to Nevada customers.

Other problems caused by the dual UP and SP systems include empty cars that were to be picked up for westbound movements being placed in the eastbound block for pick-ups at Elko. Further, BNSF has encountered significant problems with haulage service for another Nevada customer, Anshutz Marketing ("Anshutz") at Carlin. Anshutz has attempted four times to use BNSF service. Each time, cars were either not delivered by UP for up to 7 days after they arrived in Elko, or empties were not pulled from the Anshutz facility for a similar period of time.

UP is scheduled to cutover to one data operating system on July 1, 1998. BNSF is hopeful that UP's elimination of TOPS will put an end to many of these problems.

C. I-5 Corridor/California

Tehachapis Line. As the Board is aware, BNSF, as successor to Santa Fe, operates over the former Tehachapis Line between Kern Junction (Bakersfield) and Mojave, CA, a distance of approximately 68 miles. These operations are conducted pursuant to an Operating Agreement prescribed by the ICC in Atchison, Topeka & Santa Fe Railway Co.-Operating Agreement-Southern Pacific Co., 331 I.C.C. 367 (1967), as modified in 333 I.C.C. 342 (1968). The service BNSF has received since the UP/SP merger has deteriorated significantly, and BNSF has been experiencing numerous unacceptable delays in moving its trains over the Tehachapis Line.

Condition 14 of the Operating Agreement provides that BNSF's trains are to be given "equal dispatch" with those of UP. Despite this requirement, BNSF's trains appear not to be receiving equal dispatch in obtaining access to the Tehachapis Line. In many cases, BNSF's trains are being prevented from entering the Tehachapis Line while the

allow BNSF to meet its service commitments.^{9/} UP and BNSF are again exploring remedies for this ongoing haulage problem.

D. General Issues

Service Standards for Reciprocal Switch. BNSF has found that in most cases where UP is performing either haulage or reciprocal switch service for BNSF, BNSF has been unable to provide timely, reliable and competitive service. On some occasions, UP has given its own trains preference over BNSF trains, thereby causing BNSF trains to experience considerable delays. On other occasions, BNSF trains experienced delays because UP inefficiently coordinated operations. BNSF believes that service standards or commitments by UP are needed in order to ensure that BNSF is able to offer customers fully competitive service.

Additional Access Rights

Term Sheet Agreement. As was previously discussed in the April 1, 1998 Progress Report, on February 12, 1998, UP and BNSF entered into the Term Sheet Agreement to allow greater coordination between railroads along the Gulf Coast and to improve operations and reduce congestion. However, BNSF has been unable to reach a definitive agreement with UP implementing the Term Sheet Agreement because of a dispute that has arisen between BNSF and UP concerning the width of the right of way to be included in the exchange of ownership interests contemplated by the Term Sheet

^{9/} UP did eventually offer an alternative service plan that provided for a standard on this traffic of 66.5 hours from cutoff at Farmers Rice's facility to the interchange with BNSF at Stockton, CA. This service standard is not acceptable to BNSF or its customer.

BNSF is continuing to review and update the list of customer facilities accessible to BNSF as a result of the merger to assure that the list is current and accurate. During the upcoming quarter, BNSF and UP will consider the establishment of an Industrial Development Protocol that would outline BNSF's and UP's responsibilities with regard to locating new customer facilities along trackage rights lines and "2-to-1" points.

Pursuant to the Board's Decision No. 11 served on January 23, 1998, in the oversight proceeding, BNSF and UP have completed their negotiations on a protocol for the identification of "2-to-1" shipper facilities open to service by BNSF as a result of the conditions imposed in the UP/SP merger. A copy of the "2-to-1 Point Identification Protocol" executed by the parties is attached hereto as Attachment 5.

Notwithstanding the protocol, one area of concern remains BNSF's interactions with UP relating to adding customer facilities to the list of facilities accessible by BNSF under the terms of the settlement agreements, the Board's merger conditions, and subsequent decisions. At San Antonio, TX, UP has reversed its earlier approval permitting BNSF access to a transload facility, South Texas Liquid Terminals. This has placed in jeopardy a major movement of corn syrup now moving via BNSF from a Midwest shipper. Although UP agrees the facility is a transload, it now denies that the facility is within the reciprocal switch limits of San Antonio, a "2-to-1" point, as defined by applicable tariffs. BNSF anticipates a filing with the Board in the near future to permit our access to this facility, in line with merger settlement agreements and conditions.

Current listings of all "2-to-1" customer facilities and transloads, "2-to-1" shortline customer facilities, customer facilities on connecting carriers open to reciprocal switch,

BEFORE THE
SURFACE TRANSPORTATION BOARD

Finance Docket No. 32760 (Sub-No. 21)

UNION PACIFIC CORPORATION, UNION PACIFIC RAILROAD COMPANY
AND MISSOURI PACIFIC RAILROAD COMPANY

-- CONTROL AND MERGER --

SOUTHERN PACIFIC RAIL CORPORATION, SOUTHERN PACIFIC
TRANSPORTATION COMPANY, ST. LOUIS SOUTHWESTERN RAILWAY
COMPANY, SPCSL CORP. AND THE DENVER AND
RIO GRANDE WESTERN RAILROAD COMPANY -- OVERSIGHT

APPLICANTS' SECOND ANNUAL REPORT
ON MERGER AND CONDITION IMPLEMENTATION

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Attorneys for Union Pacific
Corporation, Union Pacific
Railroad Company and Southern
Pacific Rail Corporation

July 1, 1998

ones. UP assigned an employee at its National Customer Service Center to work full-time on resolving problems identified in the log.

By improving communications and avoiding duplication of effort, the problem-log approach substantially improved the problem resolution process that preceded it. More than 1,000 problems have been documented in the database in the 14 months it has existed, and as of the end of June only 12 merger-related problems remained open. This process, created to address problems relating to implementation of the merger conditions, has proven such a great success that it has also been used to solve issues between UP and BNSF that are not merger-related.

The BNSF-UP dispatching protocol has also worked well.^{2/} Both parties have exercised their rights to monitor the dispatching of their trains by the other, and any issues that have arisen have been resolved quickly and cooperatively. BNSF has placed a full-time manager at the Harriman Dispatching Center and UP has maintained a full-time manager at BNSF's Fort Worth Dispatching center to facilitate the movement of BNSF trackage rights traffic. Advisories have been sent to remind dispatchers of the importance of scrupulous fairness in dispatching tenants' trains in

^{2/} BNSF has confirmed this in its periodic reports. See, e.g., BNSF-PR-2, p. 6; BNSF-PR-4, Hord, pp. 12-13; BNSF-PR-5, p. 15.

accordance with their proper priorities. In addition, as previously reported, UP and BNSF have now stationed dispatching personnel at a Houston-area regional dispatching center in Spring, Texas.

Finally, on January 12, 1998, UP and BNSF entered into a general agreement covering UP's provision of terminal services to BNSF in connection with BNSF's exercise of its trackage and haulage rights.

Line Sales. The BNSF settlement agreement provided for the sale to BNSF of three line segments: Dallas-Waxahachie, Iowa Junction-Avondale and Keddie-Bieber. As we reported last year, the first two sales were completed on September 20 and December 15, 1996. The Keddie-Bieber sale closed on July 15, 1997, simultaneously with the commencement of the I-5 proportional rate arrangement.

On February 18, 1998, UP and BNSF executed a final settlement of their dispute concerning whether the Iowa Junction-Avondale line's physical condition met the contractual requirement on the sale date.

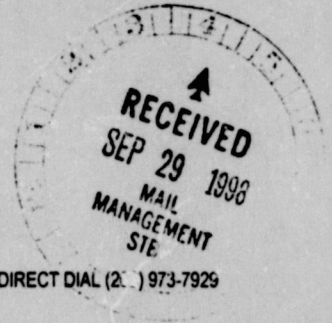
As previously reported (UP/SP-335, pp. 4-5), as part of an overall agreement under which BNSF joined in a regional dispatching center critical to improving service in the Houston/Gulf Coast area, UP and BNSF agreed on February 18, 1998 to exchange undivided half-interests in UP's line between Iowa Junction, Louisiana, and Dawes, Texas, and BNSF's line

STB FD 32760 (Sub 30) 9-29-98 A 191394

LAW OFFICES

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(202) 342-1316



SCOTT M. ZIMMERMAN

September 29, 1998

BY HAND

The Honorable Vernon A. Williams
Secretary
Surface Transportation Board
1925 K Street
Washington, D.C. 20423

ENTERED
Office of the Secretary

SEP 30 1998

Part of
Public Record

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Re: Houston/Gulf Coast Oversight, Finance Docket No. 32760 (Sub-No. 26 et al.)

Dear Secretary Williams:

Enclosed for filing in the above-referenced proceeding is the original and 25 copies of TM-19, "Errata to the Consensus Plan." Also enclosed is a computer disk containing the text of this pleading in WordPerfect 5.0.

Please date-stamp and return with our messenger the additional enclosed three copies of this pleading.

Sincerely,

Scott M. Zimmerman

Enclosures

ENTERED
Office of the Secretary

SEP 30 1998

Part of
Public Record

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

FINANCE DOCKET NO. 32760 (Sub-Nos. 26-32)

ORIGINAL

TM-19



**UNION PACIFIC CORPORATION, UNION PACIFIC RAILROAD COMPANY
AND MISSOURI PACIFIC RAILROAD COMPANY**

-- CONTROL AND MERGER --

**SOUTHERN PACIFIC RAIL CORPORATION, SOUTHERN PACIFIC
TRANSPORTATION COMPANY, ST. LOUIS SOUTHWESTERN RAILWAY
COMPANY, SPCSL CORP. AND THE DENVER
AND RIO GRANDE WESTERN RAILROAD COMPANY**

HOUSTON/GULF COAST OVERSIGHT

ERRATA TO THE CONSENSUS PLAN

Tex Mex hereby submits the following errata to the Consensus Plan (TM-2, KCS-2, et al.) filed on July 8, 1998 by the Consensus Partners (the Chemical Manufacturers Association, the Society of the Plastics Industry, Inc., the Railroad Commission of Texas, the Texas Chemical Council, the Kansas City Southern Railway Company, and Tex Mex) in the Houston/Gulf Coast Oversight proceeding.

In preparing TM-17, Tex Mex's response and objections to the application for additional remedial conditions sought by the Burlington Northern and Santa Fe Railway Company, it was discovered that certain trackage rights car miles between Corpus Christi and Houston inadvertently were excluded from the rail traffic data from which the Base Case and Consensus Plan economic scenarios were derived. This omission caused a slight increase in the costs reflected under the Base Case, which in turn required a slight adjustment to the Consensus Plan economic evaluation. These adjustments were incorporated in the Base Case and Consensus

Plan economic data in the verified statement of Joseph J. Plaistow in TM-17, filed on September 18, 1998.¹

The following errata incorporate the same adjustments in the July 8, 1998 Consensus Plan filing.² These errata do not change, in any substantive way, the conclusions or analysis set forth in the Consensus Plan.

ERRATA

Page 257, Table 1

In the "1996 to Base Case" line, replace "\$4,389" with "\$4,863", and replace "\$4,384" with "\$3,910";

In the "Base Case to Consensus Plan" line, replace "39,551" with "39,083", and replace "15,793" with "15,325";

Page 259, Table 3

In the "1996 to Base Case" line, replace "\$4,389" with "\$4,863", and replace "\$4,384" with "\$3,910";

In the "Base Case to Consensus Plan" line, replace "39,551" with "39,083", and replace "15,793" with "15,325";

Page 274

Replace Exhibit No. JJP-3 with the attached revised Exhibit No. JJP-3;

Page 275

Replace Exhibit No. JJP-4 with the attached revised Exhibit No. JJP-4;

¹ See TM-17, Plaistow V.S. at 5, n.1. Hence, the exhibits to Mr. Plaistow's verified statement in TM-17 refer to the "revised" Base Case and Consensus Plan.

² Corresponding adjustments also would have been necessary to the Base Case economic data presented by Mr. Plaistow in TM-7/KCS-7, the Joint Petition of Tex Mex and KCS for the imposition of additional remedial conditions, filed on March 30, 1998 in Finance Docket No. 32760 (Sub-No. 21) (The "March 30 request"). However, formal errata to the Base Case numbers in Mr. Plaistow's testimony in that filing, and the recalculations that would be required to incorporate those revised Base Case numbers into Mr. Plaistow's economic analysis of the March 30 request, have been rendered moot, insofar as the economic analysis in the July 8 Consensus Plan supercedes that of the March 30 request.

Page 276

Replace Exhibit No. JJP-5 with the attached revised Exhibit JJP-5;

Page 277

Replace Exhibit No. JJP-6 with the attached revised Exhibit No. JJP-6;

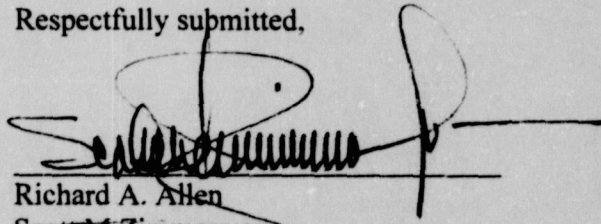
Page 278

Replace Exhibit No. JJP-7 with the attached revised Exhibit No. JJP-7;

Page 279

Replace Exhibit No. JJP-8 with the attached revised Exhibit No. JJP-8.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Richard A. Allen", is written over a horizontal line.

Richard A. Allen

Scott M Zimmerman

ZUCKERT, SCOUTT & RASENBERGER, LLP

888 Seventeenth Street, NW

Suite 600

Washington, D.C. 20006

(202) 298-8660

Attorneys for the Texas Mexican Railway Company

Dated: September 29, 1998

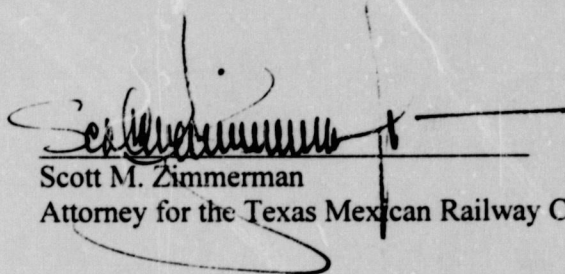
CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing "Errata to the Consensus Plan" was served this 29th day of September, 1998, by hand delivery upon The Honorable Stephen Grossman, by hand delivery upon the below-named counsel for Burlington Northern Santa Fe and Union Pacific, respectively:

Erika Z. Jones
Adrian L. Steel, Jr.
Kathryn A Kusske
Kelley E. O'Brien
Mayer, Brown & Platt
2000 Pennsylvania Avenue, N.W.
Washington, DC 20006

Arvid E. Roach II
J. Michael Hemmer
David L. Meyer
Michael L. Rosenthal
Covington & Burling
1201 Pennsylvania Avenue, N.W.
P.O. Box 7566
Washington, DC 20044-7566

and by first class mail upon all other parties of record in the Houston/Gulf Coast Oversight proceeding, Finance Docket No. 32760 (Sub-No. 26 *et al.*).



Scott M. Zimmerman
Attorney for the Texas Mexican Railway Company

**Base Case
Balance Sheet
(Revised)**

Exhibit No. JJP-3
July 8, 1998

The Texas Mexican Railway Company

Description	December 31, 1996 Audited (000s) (a)	Adjustment Amount (000s) (b)	Adjusted Base Period Amount (000s) (c)
Assets			
Current Assets:			
1 Cash and cash equivalents	\$ 392	\$ 1,679	\$ 2,071
2 Investments	572		572
3 Net Accounts and Notes Receivable	6,663	168	6,831
4 Inventory	1,562		1,562
5 Due from Parent and Other related parties	912		912
6 Current deferred income taxes	984		984
7 Other	590		590
8 Total Current Assets	<u>\$ 11,675</u>	<u>\$ 1,847</u>	<u>\$ 13,522</u>
Properties:			
9 Equipment	23,481		23,481
10 Land, Buildings & improvements	18,931	13,643	32,574
11 Less accumulated depreciation	(17,870)	(222)	(18,092)
12 Net Properties	<u>\$ 24,542</u>	<u>\$ 13,421</u>	<u>\$ 37,963</u>
Other Assets:			
13 Investments in other partnership	3,889		3,889
14 Net other assets	1,099		1,099
15 Total Other Assets	<u>\$ 4,988</u>	<u>\$ -</u>	<u>\$ 4,988</u>
16 Total Assets	<u>\$ 41,205</u>	<u>\$ 15,268</u>	<u>\$ 56,473</u>
Liabilities & Equities			
17 Accounts Payable	\$ 1,912	\$ 487	\$ 2,399
18 Due to Parent and other related parties	410		410
19 Other accrued liabilities	4,344	1,034	5,378
20 Total current liabilities	<u>\$ 6,666</u>	<u>\$ 1,521</u>	<u>\$ 8,187</u>
21 Long Term Debt	3,800	11,524	15,324
22 Deferred Income Taxes	5,203		5,203
23 Total liabilities	<u>\$ 15,669</u>	<u>\$ 13,046</u>	<u>\$ 28,715</u>
Stockholder's equity:			
24 Common Stock	2,500		2,500
25 Additional paid in capital	981		981
26 Retained earnings	22,055	2,223	24,278
27 Total Stockholder's equity	<u>\$ 25,536</u>	<u>\$ 2,223</u>	<u>\$ 27,759</u>
28 Total Liabilities & Equity	<u>\$ 41,205</u>	<u>\$ 15,268</u>	<u>\$ 56,473</u>

**Base Case
Income Statement
(Revised)**

Exhibit No. JJP-4
July 8, 1998

The Texas Mexican Railway Company

Description	December 31, 1996 Audited (000s) (c)	Adjustment Amount (000s) (d)	Adjusted Base Period Amount (000s) (e)
Operating Revenues:			
1 Freight	\$ 18,107	9,032	\$ 27,139
2 Switching	554	276	830
3 Demurrage	550	274	824
4 Incidental	603	301	904
5 Uncollectible Accounts	(480)	(239)	(719)
6 Total Operating Revenues	<u>19,334</u>	<u>9,644</u>	<u>28,978</u>
Operating Expenses:			
7 Maintenance of Way & Structures	2,294	-	2,294
8 Maintenance of Equipment	1,720	931	2,651
9 Transportation	9,403	3,994	13,397
10 General & Administrative	3,343	388	3,731
11 Depreciation Expense	1,577	222	1,799
12 Loss (Gain) On Sale of Fixed Assets	25	(25)	-
13 Total Operating Expenses	<u>\$ 18,362</u>	<u>\$ 5,510</u>	<u>\$ 23,872</u>
14 Income (Loss) From Operations	\$ 972	\$ 4,135	\$ 5,107
15 Other Income & Expense Net	636	(878)	(242)
16 Income (Loss) before Income Taxes	<u>1,608</u>	<u>3,256</u>	<u>4,864</u>
17 Income Tax Rate			34%
18 Income Taxes	620	1,034	1,654
19 <u>Net Income (Loss)</u>	<u>\$ 988</u>	<u>\$ 2,223</u>	<u>\$ 3,210</u>

Base Case
Sources and Applications of Funds
(Revised)

Exhibit No. JJP-5
July 8, 1998

The Texas Mexican Railway Company

<u>Description</u>	December 31, 1996 Audited (000s) (a)	Adjustment Amount (000s) (b)	Base Period Adjusted (000s) (c)
<u>From Operating Activities:</u>			
1 Net Income (Loss)	\$ 988	2,223	3,210
2 Depreciation	1,577	222	1,799
3 Deferred Income Taxes	620	-	620
4 Equity Earnings - Partnership Investment	(477)		(477)
5 Dividend Distribution - Partnership Investment	556		556
6 Change in current assets - (Increase) or Decrease	(899)	(168)	(1,067)
7 Change in current liabilities - Increase or (Decrease)	(988)	1,521	533
8 Change in amounts due to/from parent and other related parties - Increase or (Decrease)	498		498
9 Net Cash Provided by Operating Activities	<u>1,875</u>	<u>3,797</u>	<u>\$ 5,672</u>
<u>From Investing Activities:</u>			
10 Purchases of Equipment & Improvements, net of gain or loss on disposition of fixed assets	(2,011)	(13,643)	\$ (15,654)
11 Proceeds from sale of investments	1,224		1,224
12 Investment in Long Term Assets	(1,099)		(1,099)
13 Net Cash Used by Investing Activities	<u>\$ (1,886)</u>	<u>\$ (13,643)</u>	<u>\$ (15,529)</u>
<u>From Financing Activities:</u>			
14 Long Term Debt Borrowings	-	11,524	11,524
15 Net Cash Provided by Financing Activities	<u>-</u>	<u>\$ 11,524</u>	<u>\$ 11,524</u>
16 Increase (Decrease) in Cash & Cash Equivalents	\$ (11)	\$ 1,679	\$ 1,668
17 Cash & Cash Equivalents at Beginning of Year	403		403
18 Cash & Cash Equivalents at End of Year	<u>\$ 392</u>	<u>\$ 1,679</u>	<u>\$ 2,071</u>

**Consensus Plan
Balance Sheet
(Revised)**

Exhibit No. JJP-6
July 8, 1998

The Texas Mexican Railway Company

Description	Adjusted Base Period Amount (000s) (a)	Adjustment Amount (000s) (b)	Year 1 After Change in Operations (000s) (c)	Adjustment Amount (000s) (d)	Year 2 After Change in Operations (000s) (e)	Adjustment Amount (000s) (f)	Year 3 After Change in Operations (000s) (g)	Adjustment Amount (000s) (h)	Normal Year After Change in Operations (000s) (i)
Assets									
Current Assets:									
1 Cash and cash equivalents	\$ 2,071	\$ (1,719)	\$ 353	\$ 13,454	\$ 13,807	\$ 9,770	\$ 23,577	\$ 12,749	\$ 36,325
2 Investments	572		572		572		572		572
3 Net Accounts and Notes Receivable	6,831	155	6,986	775	7,761	103	7,864	-	7,864
4 Inventory	1,562		1,562		1,562		1,562		1,562
5 Due from Parent and Other related parties	912		912		912		912		912
6 Current deferred income taxes	984		984		984		984		984
7 Other	590		590		590		590		590
8 Total Current Assets	\$ 13,522	\$ (1,564)	\$ 11,959	\$ 14,229	\$ 26,188	\$ 9,873	\$ 36,061	\$ 12,749	\$ 48,809
Properties:									
9 Equipment	23,481		23,481		23,481		23,481		23,481
10 Land, Buildings & improvements	32,574	129,462	162,036	-	162,036	-	162,036	-	162,036
11 Less accumulated depreciation	(18,092)	(3,772)	(21,863)	(5,744)	(27,608)	(5,744)	(33,352)	(5,744)	(39,096)
12 Net Properties	\$ 37,963	\$ 125,691	\$ 163,653	\$ (5,744)	\$ 157,909	\$ (5,744)	\$ 152,165	\$ (5,744)	\$ 146,421
Other Assets:									
13 Investments in other partnership	3,889		3,889		3,889		3,889		3,889
14 Net other assets	1,099		1,099		1,099		1,099		1,099
15 Total Other Assets	\$ 4,988	\$ -	\$ 4,988	\$ -	\$ 4,988	\$ -	\$ 4,988	\$ -	\$ 4,988
16 Total Assets	\$ 56,473	\$ 124,127	\$ 180,600	\$ 8,485	\$ 189,085	\$ 4,129	\$ 193,214	\$ 7,004	\$ 200,218
Liabilities & Equities									
17 Accounts Payable	\$ 2,399	\$ 610	\$ 3,009	\$ 2,881	\$ 5,891	\$ 376	\$ 6,266	\$ (282)	\$ 5,984
18 Due to Parent and other related parties	410	2,000	2,410	(1,000)	1,410	(1,000)	410		410
19 Other accrued liabilities	5,378	(3,371)	2,007	3,834	5,841	712	6,553	1,112	7,665
20 Total current liabilities	\$ 8,187	\$ (761)	\$ 7,426	\$ 5,716	\$ 13,142	\$ 87	\$ 13,230	\$ 830	\$ 14,059
21 Long Term Debt	15,324	128,221	143,546	(1,342)	142,204	(1,450)	140,753	(1,475)	139,278
22 Deferred Income Taxes	5,203		5,203		5,203		5,203		5,203
23 Total liabilities	\$ 28,715	\$ 127,460	\$ 156,175	\$ 4,374	\$ 160,549	\$ (1,363)	\$ 159,186	\$ (646)	\$ 158,540
Stockholder's equity:									
24 Common Stock	2,500		2,500		2,500		2,500		2,500
25 Additional paid in capital	981		981		981		981		981
26 Retained earnings	24,278	(3,333)	20,945	4,110	25,055	5,492	30,547	7,650	38,197
27 Total Stockholder's equity	\$ 27,759	\$ (3,333)	\$ 24,426	\$ 4,110	\$ 28,536	\$ 5,492	\$ 34,028	\$ 7,650	\$ 41,678
28 Total Liabilities & Equity	\$ 56,473	\$ 124,127	\$ 180,600	\$ 8,485	\$ 189,085	\$ 4,129	\$ 193,214	\$ 7,004	\$ 200,218

**Consensus Plan
Income Statement
(Revised)**

Exhibit No. JJP-7
July 8, 1998

The Texas Mexican Railway Company

Description	Adjusted Base Period Amount (000s)	Adjustment Amount (000s)	Year 1 After Change in Operations (000s)	Adjustment Amount (000s)	Year 2 After Change in Operations (000s)	Adjustment Amount (000s)	Year 3 After Change in Operations (000s)	Adjustment Amount (000s)	Normal Year After Change in Operations (000s)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
Operating Revenues:									
1 Freight	\$ 27,139	\$ 8,302	\$ 35,441	\$ 41,508	\$ 76,948	\$ 5,534	\$ 82,483	\$ -	\$ 82,483
2 Switching	830	254	1,084	1,270	2,354	169	2,524	-	2,524
3 Demurrage	824	252	1,077	1,261	2,337	168	2,505	-	2,505
4 Incidental	904	276	1,180	1,382	2,563	184	2,747	-	2,747
5 Uncollectible Accounts	(719)	(201)	(921)	(1,006)	(1,926)	(131)	(2,060)	-	(2,060)
6 Total Operating Revenues	28,978	8,883	37,861	44,415	82,277	5,922	88,199	-	88,199
Operating Expenses:									
7 Maintenance of Way & Structures	2,294	384	2,678	491	3,169	-	3,169	-	3,169
8 Maintenance of Equipment	2,651	931	3,581	4,654	8,235	621	8,856	-	8,856
9 Transportation	13,397	5,204	18,601	25,460	44,061	3,347	47,407	(3,075)	44,332
10 General & Administrative	3,731	129	3,861	809	4,670	129	4,799	-	4,799
11 Depreciation Expense	1,799	1,973	3,772	1,973	5,744	-	5,744	-	5,744
12 Loss (Gain) On Sale of Fixed Assets	-	-	-	-	-	-	-	-	-
13 Total Operating Expenses	\$ 23,872	\$ 8,621	\$ 32,493	\$ 33,386	\$ 65,879	\$ 4,096	\$ 69,975	\$ (3,075)	\$ 66,900
14 Income (Loss) From Operations	\$ 5,107	\$ 262	\$ 5,369	\$ 11,029	\$ 16,398	\$ 1,826	\$ 18,223	\$ 3,075	\$ 21,298
15 Other Income & Expense Net	\$ (242)	\$ (10,176)	\$ (10,419)	\$ 249	\$ (10,170)	\$ 267	\$ (9,902)	\$ 195	\$ (9,707)
16 Income (Loss) before Income Taxes	4,864	(9,914)	(5,050)	11,278	6,228	2,093	8,321	3,270	11,591
17 Income Tax Rate	34%		34%		34%		34%		34%
18 Income Taxes	1,654	(3,371)	(1,717)	3,834	2,117	712	2,829	1,112	3,941
19 Net Income (Loss)	\$ 3,210	\$ (6,543)	\$ (3,333)	\$ 7,443	\$ 4,110	\$ 1,381	\$ 5,492	\$ 2,158	\$ 7,650

**Consensus Plan
Sources and Applications of Funds
(Revised)**

Exhibit No. JJP-8
July 8, 1998

The Texas Mexican Railway Company

Description	Base Period Adjusted (000s)	Year 1 After Change in Operations (000s)	Year 2 After Change in Operations (000s)	Year 3 After Change in Operations (000s)	Normal Year After Change in Operations (000s)
	(a)	(b)	(c)	(d)	(e)
From Operating Activities:					
1 Net Income (Loss)	3,210	(3,333)	4,110	5,492	7,650
2 Depreciation	1,799	3,772	5,744	5,744	5,744
3 Deferred Income Taxes	620	-	-	-	-
4 Equity Earnings - Partnership Investment	(477)	-	-	-	-
5 Dividend Distribution - Partnership Investment	556	-	-	-	-
6 Change in current assets - (Increase) or Decrease	(1,067)	(155)	(775)	(103)	-
7 Change in current liabilities - Increase or (Decrease)	533	(2,761)	6,716	1,087	830
8 Change in amounts due to/from parent and other related parties - Increase or (Decrease)	498	2,000	(1,000)	(1,000)	-
9 Net Cash Provided by Operating Activities	\$ 5,672	\$ (477)	\$ 14,796	\$ 11,220	\$ 14,224
From Investing Activities:					
10 Purchases of Equipment & Improvements, net of gain or loss on disposition of fixed assets	\$ (15,654)	\$ (129,462)	\$ -	\$ -	\$ -
11 Proceeds from sale of investments	1,224	-	-	-	-
12 Investment in Long Term Assets	(1,099)	-	-	-	-
13 Net Cash Used by Investing Activities	\$ (15,529)	\$ (129,462)	\$ -	\$ -	\$ -
From Financing Activities:					
14 Long Term Debt Borrowings	11,524	128,221	(1,342)	(1,450)	(1,475)
15 Net Cash Provided by Financing Activities	\$ 11,524	\$ 128,221	\$ (1,342)	\$ (1,450)	\$ (1,475)
16 Increase (Decrease) in Cash & Cash Equivalents	\$ 1,668	\$ (1,719)	\$ 13,454	\$ 9,770	\$ 12,749
17 Cash & Cash Equivalents at Beginning of Year	403	2,071	352	13,607	23,576
18 Cash & Cash Equivalents at End of Year	\$ 2,071	\$ 352	\$ 13,807	\$ 23,576	\$ 36,325